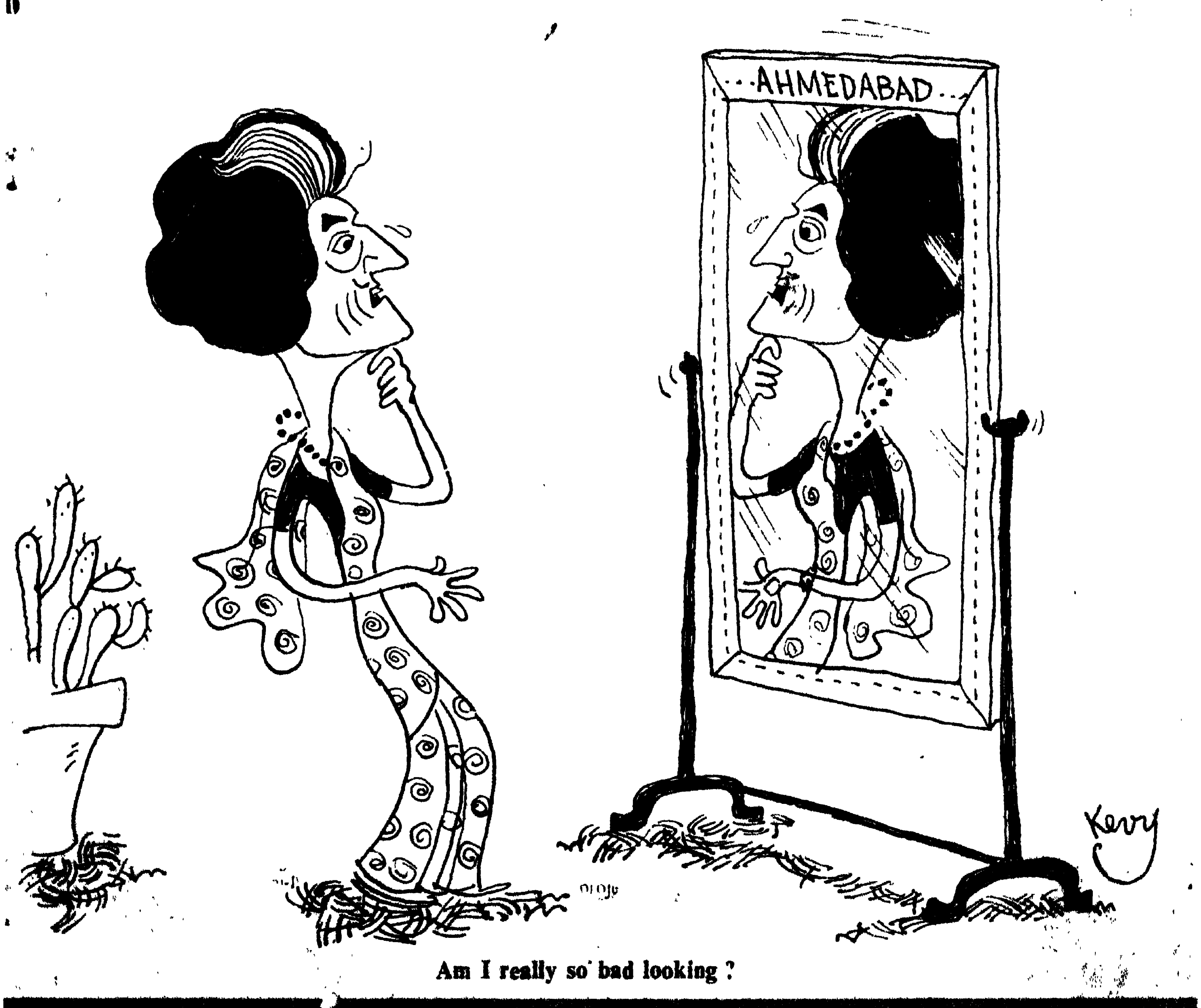
EASTERN ECONOMIST 1

RUPEES 1.50. JANUARY 2, 1970. VOL. 54

TO THE LAND OF THE RISING SUN

NATION IN LABOUR

HUNGARY'S ECONOMY



Am I really so bad looking ?

EASTERN ECONOMIST

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ANNUAL SUBSCRIPTION
INLAND : Rs 85.00
FOREIGN : £7-0-0 or $17-00
Airmail & Advertisement Rates on Enquiry
REGISTERED OFFICE
UCO Bank Building, P. Box 34, Parliament Street, New Delhi-1.

TO THE LAND OF THE RISING SUN

EASTERN ECONOMIST desires to dedicate its first issue of the new year in the new decade to the people of Japan in tribute to their spectacular achievements in building national prosperity. They have proved to the world how vision, self-confidence and self-reliance, realism, enthusiasm and hard work could be blended into an immense purposefulness that could work wonders of social and economic progress. For an unhappy but mercifully short period in its history, Japan had acquired an unlovely reputation for aggressive militarism. For this misdirection of the abilities and energies of its people, Japan was grievously punished by the nuclear bombardments of two of its great cities towards the close of the last world war. But because of its indomitable spirit even the fires of that funeral pyre could be turned into a purificatory ordeal from which this courageous and resourceful nation has emerged with a sense of new potentialities reinforced by a reaffirmation of the ancient virtues of the race.

In the post-war years and especially during the sixties, as Japan kept up a high and steady rate of economic growth, far too many observers in the west, not wanting to believe in an eastern miracle when they saw one, were inclined to argue that the Japanese economy was merely exploiting cheap domestic labour while plagiarising foreign know-how. It is no longer possible for such misconceptions to be fostered. Japan's industrialisation has been so pervasive in its range and depth, in its variety and quality, and above all, in its fierce competitiveness in a trade-hungry world that the only true explanation of the Japanese economic miracle, which is that it is the authentic product of the commitment of the Japanese people to "growth, law and order", as one of their American admirers has put it, has become an established fact of current history. Having achieved a growth rate of about 15 per cent a year in real terms, which is about five times that of the United States, the Japanese economy is headed towards a gross national product of about $200 billion in 1970. In the free world, the Japanese economy is now second only to that of the United States in terms of GNP, while in the communist world, it is surpassed in this respect only by the USSR. As for what the seventies may bring to Japan, it is the estimate of responsible observers that over the next five years, that country should be able to double its GNP, which would then equal the total present GNP of the European Common Market and that the latter half of the decade might see a further doubling of the Japanese GNP from its level as of 1975. If these expectations are realised, Japan will have "a real chance" of surpassing the United States in per capita output by the year 1980.

It is true, no doubt, that as Japan enters the era of affluence, its social problems will come to the fore. The women of Japan may have to strive for their emancipation and its youth against the paternalism of the family as a traditional concept. Japan, again, is not by any means entirely free from the ideological distempers that afflict the age. But given the commitment of the common people of Japan to "growth, law and order", there is more than a fair chance of Japan working out its social adjustments without jeopardising the dynamic urges of its economic expansion. The decisive victory won in the latest general election by the ruling Liberal Democratic Party and its leader, Mr Eisaku Sato, the Prime Minister of Japan, is evidence of the value which the Japanese democracy ascribes to effective government under conditions of political stability as a basic requirement of economic growth.

Recently, at the International Film Festival, was screened a remarkable Japanese film entitled, "Tunnel to the Sun". It pictured the missionary zeal which a construction engineer and his team brought to the building of a hydro-electric project in an almost impossible terrain. In our view,

this film should be made compulsory viewing for every family in our country because it distils the essence of the secret of the success of the Japanese people in modernising their agriculture and expanding their industry. In our own country, there is a hydro-electric scheme, the Idikki project, which the Canadian government is generously aiding and which, when completed, can do a world of good to the economy of Kerala. Unfortunately, its progress is being frustrated at every turn by labour trouble breaking out periodically into violence through political motivations.

The sad experience of Idikki and the glorious saga of the Japanese "Tunnel to the Sun", when compared with each other, provide a striking and sufficient explanation of why Japanese economy is so far ahead while the Indian economy is so far behind. In the new year, Japan will proudly host the world at Expo '70 in Osaka. Many Indians, businessmen and others, may have an opportunity of viewing the prowess of the Japanese economy in the futuristic setting of Expo '70. If only they could catch the infection of the Japanese dedication to economic growth and, on returning to their country, spread the infection among their countrymen, including, emphatically, the politicians, India may yet make something of itself in the years of the new decade. Meanwhile, as we said at the beginning we dedicate this issue to the Land of the Rising Sun, its people and their government in the faith that, in the period that lies immediately ahead, Japan will use some part of the resources of its economy to assisting in the emergence or evolution of expansionist economies in the developing world, particularly in south and south-east Asia.

Nation in Labour

THE point of the Ahmedabad and Bombay conventions of the two political factions which have emerged from the split in the Congress party was not whether they would achieve artithmetical clarity about their respective strength or size but whether they could assist in the clarification of the political situation. From this point of view the two rival groups have been quite successful. It has now been shown beyond doubt that the Congress party as such is dead and that neither of the emergent factions can claim legitimately the title to function in its name. This is the logic of the fact that there has been a virtual dichotomy of allegiance and support among the men and women of the now defunct Congress party. The rival camps may of course choose to continue to fight over the remnants of the Congress name or Congress history, but, for all practical purposes, they must hereafter be content to operate as two new political parties. The Congress is dead and neither Mr Nijalingappa nor Mr Jagjivan Ram is in a position to declaim, "Long Live the Congress".

Unfortunately, it would be some time before the politicians of the defunct Congress party would get reconciled to this situation, for they are hugging still the letter "O" or the letter "R" as a prefix or a suffix to their claim to the Congress name. This would be time wasted and time lost. The men and women who, in varying degrees, have been responsible for the partitioning of the Congress should not be squeamish about shedding old labels of party identification which have now been worn out. So far as the people are concerned, they may come to realise sooner than the politicians the political reality of two new party groupings which have taken shape over the grave where the dead Congress party now lies buried.

Both of the new political groupings have sworn by democratic socialism, but there is a clear difference between them as regards substance as well as style. The Ten-point Programme of the old Congress, serves them more as a point of departure than as a common legacy for rival claims. It is clear that the thrust of the Requisitionist group is very much more to the left-of-centre than the instincts or impulses of the Organisation group. Whereas the leadership of the latter will have to be on its guard against pressures and influences which would pull it more to the left of centre, the leadership of the former will have to be continuously giving battle to the demands of its extremists for more and yet more of political opportunism and economic adventurism. This much has been made clear in Ahmedabad and Bombay and developments within the next few months are bound to spell out in concrete detail what implications these rival involvements may have for the orderly political and economic progress of our country.

Considered in this perspective, the particulars of the economic policy resolutions, whether of Bombay or of Ahmedabad, sink in significance. What would matter really is how Mrs Indira Gandhi's government chooses to act, through the central budget or otherwise, in furthering the political interests or objectives of her party. Similarly, where her rivals are concerned, what must interest the public is how they would respond or react to her actions, whether their moves would be no more than counter-moves meant to promote their political advantage or whether they would be rationally related to the political, economic and social needs of the nation. It is to be hoped that both parties realise that this game is too serious a one to be played merely as a game of wits or even as a game of wills. There is, however, not much ground for hopefulness here. The way in which issues such as the imposition of a ceiling on urban property or the nationalisation of sugar mills were discussed or decided in Bombay suggests that Mrs Gandhi's party at least is determined to exploit its vantage point in government to pursue its partisan interest at the expense of the national interest.

Thanks to an accident of the calendar, the political affairs of the divided Congress

party reached their explosive climax at about the time when the Finance Ministry of the central government had to sit down to work out the fiscal and other economic policies for the next budget. Inevitably, then, the budget Mrs Gandhi may present to Parliament on February 28 in the New Year would be a definitive test of her willingness and ability to continue her power politics without wrecking the national economy. It is true of course, that there may be many a slip between the cup and the lip and that Mrs Gandhi may not, in fact, be presenting a regular central budget in February. Here, however, we enter the field of speculation, political even if not astrological. It must be added also that there is really not much comfort to be had in contemplating possibilities of governmental instability at the centre or even a mid-term poll.

Although the death-bed politics of the old Congress party have been occupying the centre of the stage for some months now, it is fairly clear that the reactions and responses of other political parties to the division of the Congress into two political groupings will be of substantial importance in determining the shape of political India in the year ahead. The Jana Sangh, at its annual session in Patna, undertook certain exercises in political tactfulness and permitted itself a certain measure of topical radicalism by declaiming against the concentration of economic power, but at the same time it took care to make the point that its heart was in the right place by declaring its faith in the functioning of private enterprise in a relatively free economy. The Swatantra Party, through its President, Mr M. R. Masani, has magisterially asserted that it sees no reason for re-examining or re-adjusting any of the convictions or programmes on which it has been founded. There have been indications that these two parties would be prepared to establish working relations with Congress (O). On the other side, the DMK has been flattered and bribed into voting with the ruling party in Parliament. Whether it is the re-naming of a railway station or permitting the importation of geishas from Japan for enhancing the commercial profitability of a fun fair sponsored by prominent members of the DMK, Mrs Indira Gandhi's administration has found it worth its while to lavish favours on the hard-bargaining Chief Minister of Tamil Nadu. The communists, characteristically, are playing their own wait-and-watch game. The CPI faction has extended just enough co-operation or support to the ruling party at the centre as to tempt Mrs Indira Gandhi to the rich possibilities the future might have in store for her party if only she would make the right political choice at the right time. The CPM, having its own private wars to wage with the rival communist wing or other leftist parties, is for the time being an interested spectator rather than an active participant in the political horse-trading precipitated by Mrs Gandhi's bid for total power in the central government and the organisation of the old Congress party. Other political parties, such as the PSP and the SSP, are yet to make their bid, their current anxiety being the husbanding of their limited political presence and influence. Thus, the nation is in labour with a multitude of midwives, heavy with their own private preoccupations, hustling one another and hurrying in all directions.

Maharashtra's Housing Problem

THE last session of the Maharashtra State Legislative Assembly in Nagpur will be long remembered for the policy statement on Housing that was made, on December 5, 1969, by the Minister for Forests and Housing, Mr N.K. Tirpude. But how far such policy will solve the problem of housing of the economically backward sections and the slum-dwellers, even if the state government accords priority to what the Minister for Housing described as "Social Housing" (without the addition of the prefix "social" or "socialistic", nothing clicks today, it seems !) programmes for these sections and also earmarks 75 to 80 per cent of the total funds available to it for housing is anybody's guess.

In the first place, the problem itself is stupendous involving an outlay of not just a few crores (Rs 22 crores over the entire fourth Plan period as has been allotted to Maharashtra or twice that amount *viz.*, Rs 44 crores which Maharashtra has been pressing the centre to allot, nor, for that matter, even Rs 54 crores which is supposed to be the estimated total funds required for housing) but quite some thousands of crores of rupees.

While the state government has no doubt been earnestly making novel suggestions to the centre, such as relaxation of certain conditions attached to loans by the Life Insurance Corporation of India and use of provident fund accumulations for construction of houses for workers, the detailed consideration of these suggestions, let alone their acceptance, will take a long time. Again, the state government has yet to take a decision on the agency through which the proposed housing programme is to be executed. That there are wide differences on this issue as between the treasury benches and the opposition in the state legislature is obvious from the strong plea of Mr Ram Mahadik against entrusting the task to the Bombay Municipal Corporation.

The enormity of the housing problem will be evident from a few population

statistics, both those that were reeled out on the floor of the House by Dr D. N. Samant and those taken from the 1961 Census. Remarking that "the density of population in Bombay is probably the highest in the world", Dr Samant said the average density of population in Bombay was as much as 100 per acre (the average for the entire state of Maharashtra is 334 per sq. km. according to the 1961 Census), against 20 to 25 people per acre according to standards laid down by the UN. He further added that the density in Bhuleshwar was as much as 2,000, while, in Girgaon, it was higher still at 8,000 per acre. The urban density in India is only 4,000 per acre, according to the 1961 Census, but, in Greater Bombay alone, the density is said to be about six times that figure, while in some places, such as Kalyan, Bhivandi and Dombivli, the figure goes up to more than 30,000, it is estimated !

To these statistics, we may add a few more concerning the deplorable housing conditions culled out from a Survey of Housing Conditions in Bombay conducted in 1961. These are given below :

I.	(a) Percentage of households with no regular room	2.42
	(b) Percentage of persons in these households	1.96
	(c) Average number of persons living in these households	4.28
II.	(a) Percentage of households with one room	72.32
	(b) Percentage of persons in these households	68.21
	(c) Average number of persons in each household	4.96
III.	(a) Percentage of households with two rooms	16.47
	(b) Percentage of persons in each of these households	17.81
	(c) Average number of persons in each of these households	5.70

Although we are not clear as to how Dr Samant arrived at the figure of Rs 1,000 crores as being the realisation by way of various taxes from over one million of people living in Bombay's slums, we cannot but endorse his suggestion that it should not be difficult to utilise at least a portion of this amount (or, for that matter, any other realisation) on providing elementary amenities to these slum dwellers. According to the Study of Housing Conditions in Bombay we have referred to earlier, over two-thirds of the total families in these slums in the city of Bombay depend on one common tap for their water requirements, while nearly five per cent (of the sample surveyed) did not have even this amenity! Only 15.6 per cent of the families surveyed, it is said, have bathrooms, while three-quarters have no place that could be described as a bathroom by any stretch of one's imagination! Paucity of funds cannot be pleaded by an enlightened administration to deny such elementary amenities to any section of the population.

A prudent government should not at all have allowed these slums to crop up, even though the stock extenuating argument put forward is that it cannot be helped in a growingly industrialised city. Even now, when the gravity of the problem would appear to have been recognised — as witness the remark of Mr Tirpude that "unless slums are removed from their present sites, no housing programme can be implemented for want of land, at least in Bombay" — the first prerequisite to putting a stop to the growth of these slums, namely earnest attempts at preventing the further cropping up of these slums anywhere and everywhere, are nowhere in evidence. Not until this is done will the process of removal of the existing slums become feasible.

The most important prerequisite is, of course, finance, and, here, surely, the state government is on its weakest wicket. Even supposing that all the resources which the Government of Maharashtra is planning to get from the centre for its fourth Plan allocation on housing and urban development would become available, these fall short of the total requirements for the purpose estimated by itself by some Rs 10 crores.

Although the Planning Commission or the centre may not question the claim of Maharashtra that the latter is ahead of all other states in constructing houses —25 per cent of the total expenditure on housing in the whole of India was incurred by Maharashtra alone — they do not appear to be in a position to spare very much more than what they have already allotted, if only because the total provision proposed to be pro-

vided for housing and urban development by the Planning Commission during the entire fourth Plan period is no more than Rs 170.70 crores.

As for getting the centre to prevail upon the LIC to relax the condition that loans given by it should be utilised only for the middle and low income group housing schemes, so as to make them utilisable even for "social housing", the LIC may be inclined to be sympathetic, but, at the same time, it is a moot point whether it would care to ignore its prior obligations to its policyholders who are even now complaining that they have not gained perceptibly by the growth in business of the LIC.

The feature 'Books Briefly' which normally appears in the first issue of every month has been held over this time due to pressure on space and will be published in the issue dated January 9, 1970.

Similarly, to utilise the accumulations in the Provident Fund of workers for providing housing to the workers themselves may be a thoughtful gesture to the workers, but the question is : Will the workers agree to this? May be, they will accept loans from their provident fund accumulation to build houses on their own, a facility they already command but seldom utilise. It seems to us a more worthwhile proposition to educate and egg on each worker to have the great status satisfaction of building a house of his own and ensure a carefully evolved follow-up scheme to see that loans taken for building a house are not utilised for any other purpose.

Resort to the centre's proposed "revolving fund" scheme is a sensible proposition, but it is still a long way off. True, the Housing Ministers' conference, held in Bangalore recently, unanimously recommended the setting up of a central housing authority to raise funds and operate these funds in the nature of a revolving fund (with a corpus of Rs 200 crores) through the agency of state governments or autonomous authorities (without detriment to the resources of these governments or authorities, be it noted) and have even taken some preliminary steps in this behalf, such as preparation of a blueprint for setting up a central housing organisation (this is being considered, if it has not already been done, we are told, by the Planning Commission and the union Finance Ministry), formulation of self-contained housing schemes to demonstrate the feasibility of operating the revolving fund in a so-called self-generating manner, appointment of a five-member representative committee of experts to suggest methods for achieving low cost, large-scale housing construction in six cities, including of course, Bombay. (This committee's report is expected to be ready only by the end of March, 1970), and undertaking of standardisation work in respect of manufacture and erection of prefabricated components for private houses at the Hindustan Housing Factory.

Even if the state government is only too anxious to join and avail itself of this scheme, it may start benefiting therefrom only from 1971-72 at the earliest. Is it small wonder then that Mr Tirpude felt obliged to admit that, colossal as the problem was, all that the state government could do was just to make "modest efforts to solve as much as possible and as speedily as it could in the circumstances". It is rare these days to come across ministers and top politicians who are as circumspect and as cautious in holding out promises.

Mr Tirpude has not only been deliberately cautious, thus, but has conceded that, in this stupendous task, the state alone cannot achieve all and that, to do so, it requires the support of every section of the public. Maharashtra can achieve what it has doubtless honestly set out to achieve in this behalf, if it extends its pragmatism a little more to make it possible for the private sector also to play its role by providing proper encouragement, if not incentives to it. One such which does not entail any reduction in receipts of the states exchequer is to remove rent control, a war-time legacy that outlived its usefulness a long while ago so as to attract more investments to building houses. Incidentally, the private sector invested about Rs 1,400 crores on housing during the third Plan period and the Planning Commission expects this figure to rise to Rs 2,700 crores during the fourth Plan period.

Eastern Economist 25 Years Ago

JANUARY 5, 1945

The need of a clear-headed formulation of an adequate fiscal policy in relation to our industrial development has become more and more evident that there is a considerable amount of confused thinking in high quarters in this regard. While Sir Ardeshir Dalal is going about declaring the intention of the Government to promote industrial development on a large-scale by granting 'liberal' tariff protection, his Excellency Lord Wavel was very particular in his assertion that any ambitious economic programme must call for the maintenance of what he calls 'a war scale of taxation'. This is a position which almost gives the appearance that the advantages which are to be conferred by the right hand are to be withdrawn by the left hand on account of a fiscal system which is only imperfectly integrated and parts of which clash not only inter se but also with the formulated end of rapid industrial development. Certainly, a 'war scale of taxation' is different from a 'war structure of taxation'. The fiscal structure which has been hastily built up during the war by the Government has been farthest from being satisfactory from the point of view maximum mobilization of our industrial potential. The Government with its consuming monetary pre-occupations of an essentially inflationary economy, has been more concerned with the so-called 'mopping up' operations or catching money by whatsoever fiscal means comes handy at the moment. In this it has failed to count the present and prospective repercussions of its fiscal policy on our productive machinery and therefore on our economic capacity to bear the burden of war-effort now as also on our industrial strength after the war. Granted the economic burden of war which we have had to bear, the war scale of tax, in one form or another, could probably not be altogether avoided, although it could be more equitably distributed. But the fiscal structure such as we have borne during the war has undoubtedly hampered industrial development and strengthening, put a discount on incentive to economy and avoidance of waste and has withal left the industries with inadequate reserves for the tasks of postponed renewals, re-equipment and expansion after the war. Indeed, the inroads made by our fiscal structure have been so heavy that not only have they tended to eat into the fixed capital equipment of our industries, but our industries have in many cases found themselves even with a dwindled volume of working capital, having regard to the rising trend of turnover and prces.

HUNGARY'S ECONOMY

K. SANTHANAM

I WAS in Hungary from October 23 to 31 in connection with Gandhi Centenary celebrations. I was the guest of the Institute of Cultural Relations which is a semi-autonomous body financed by the government and deals with cultural relations of Hungary with other countries. Of the eight days, I spent one day at Lake Balaton, over 100 miles from Budapest, which is a famous tourist resort, and where there is a bust of our great poet Rabindranath Tagore who visited it in 1928. I spent another day at the University of Pecs, (pronounced Pag) which is nearly 200 miles from Budapest, and which is one of the oldest universities of Europe having been founded in 1367 AD. I addressed a meeting of the professors and students of that university on Mahatma Gandhi and afterwards had an interesting discussion at length with the vice-chancellor, some professors and leaders of the "People's Front". I may mention that all non-political activities are conducted by the "People's Front" which is a non-party organisation, many of the important officials of which are not members of the Communist Party of Hungary.

Frank Discussion

The other six days I spent at Budapest where I addressed a gathering on Gandhiji but my main work there was to meet prominent public men, some of whom are distinguished economists. They discussed the economic problems of Hungary frankly and without any reservations.

The communist regime in Hungary is well-established, and it seems rather to sit lightly on the people. The Hungarians are cheerful and handsome and it is a pleasure to watch the orderly crowds walking about the streets of Budapest. The city itself is very beautiful being situated on both sides of the Danube which is crossed by seven bridges. On one side is Buda which is the older part of the city and has the appearance of some parts of Bangalore with its areas at different levels. On the other side Pest is in a flat area and has the appearance of the best parts of Calcutta. It has got a population of two millions and has the same appearance as our big cities except that the roads and footpaths are much cleaner. There are underground crossings at big road junctions and at other places the street crossings are regulated by automatic signals. Motorcars are comparatively few for such a big city and taxis are difficult to get at. The major means of transport are the trams and buses which are very over-crowded during the busy hours.

Fast Development

The economic development of Hungary has been proceeding fast since 1956. As one economist put it, it is almost in the front rank of the developing countries of eastern Europe. Before I proceed to deal with the recent developments, it may be useful to give some basic facts. Its area is 93,030 square kms., nearly equal to that of Tamil Nadu. Its population is now 10.2 millions which works out to 110 per square km. In 1950, Hungary was largely an agricultural country, as may be seen from the fact that out of a total of 4.1 million workers, 2.1 millions were engaged in agriculture against nearly one million in industry and transport. In the earlier stages of the establishment of communism, there was considerable resistance especially in the agricultural sector but at present both industry and agriculture have been completely socialised. In industry, the state sector dominates while in agriculture, the co-operative sector is prominent. The progress of socialisation can be seen from the following figures. In 1950, the state sector employed 80 per cent of the workers engaged in industry, the co-operative sector 1.6 per cent and private capitalist 18.2 per cent. In 1967, the respective figures were 83.6 per cent, 12.6 per cent and 3.8 per cent. In agriculture out of the total area, private farms occupied, in 1950, 67.8 per cent, co-operative farms 3.2 per cent and state farms 4.1 per cent. In 1967, the private holdings had declined to 2.3 per cent while the co-operative sector had expanded to 63.8 per cent and state farms to 10.9 per cent. It may be interesting to note that 3.3 per cent of the agricultural land was held as auxiliary farms, i.e., household farms by members of agricultural co-operativs.

Side by side with the increasing socialism, there has been a considerable development of industrialisation, though Hungary is rather poor in minerals,and other industrial raw materials. With the index of 100 for 1950, the more notable advances are in telecommunication and vacuum engineering 1561, precision engineering 1792, chemical industry 1073, pharmaceutical industry 4643, rubber and plastics 1292 and for heavy industry, as a whole, the index was 548. In the medium industries, furniture 928, hosiery 898, paper 455, textiles 559 may be mentioned. In light industry, the general index stood at 378 with canning and preserving at 1206. Agricultural productivity also has been increasing, the yield of wheat per hectare rising from 13.7 quintals before World War II to 25.8 quintals in 1967 but in other crops such as potatoes, rye and fodder, the increase has been much smaller.

Reached the Peak

The national income at comparable prices is estimated at 255 per cent of that in 1950 but it has been practically stagnant since 1960 indicating that under present conditions, Hungarian economy has almost reached its peak. The economists with whom I had discussions frankly admitted that the country has almost reached a deadlock. In their enthusiasm for socialism, the principles of high wages and full employment were implemented without regard to productivity or quality. When industrial workers were getting higher wages, the agricultural workers began to flock to the towns and in order to arrest this tendency, agricultural wages also had to be brought up to the level of industrial wages. Therefore, Hungary is now suffering from an abnormally high cost of production which normally would have resulted in serious inflation but this has been controlled in two ways. Soviet Russia has been supplying to Hungary industrial raw materials at subsidised prices and getting payment in terms of Hungarian products at prices calculated to maintain the solvency of Hungary's economy. The other socialist countries have also provided a protected market to Hungarian products. Total control of internal trade has enabled the government to keep the prices of bread, milk, vegetables and fruits and residential accommodation cheap while all other con-

sumer goods including clothing, shoes, hardware etc. were at comparatively high prices. I found that most of the shoes in the shops at Budapest cost about two to three times as much as in India.

The present pattern of foreign trade for both imports and exports is broadly that Soviet Russia takes and supplies one-third, the other socialist countries of eastern Europe another third and only a third of the foreign trade is with the rest of the world. India had only 1.8 per cent of Hungary's imports and took 1.1 per cent of its exports in 1967. The USA had practically no trade at all with Hungary and percentages of France and UK were between 2 and 3.

The economists were frankly disturbed at the present situation. They recognise that the artificial dependence on Russia's benevolence is not healthy but they find that attempts to increase productivity or improve the quality of products are resisted by the workers. They feel that steps should be taken to reconcile the general scheme of socialist economy with the inescapable laws of economics. They are proposing that the present system of rigid state socialism should be replaced by institutional autonomy, each unit of industrial, commercial or other undertaking being compelled to work without loss. They are aware that this will involve difficult and delicate problems of adjustment in their foreign trade with Soviet Russia and other east European countries. Otherwise, they are afraid that the present standard of living will have to be reduced indirectly through higher costs of consumer goods and greater economy in the provision of social services and social security. It is worth watching how Hungary solves its difficulties as it will have valuable lessons for the difficulties of our own state sector.

West German Investment Abroad

ERHARD HAUBOLD

THE visit of a high-powered delegation of West German industrialists to India in January, 1970, comes at a time when the country is undergoing major political changes. While the group's main aim is to assess the economic climate and to find new avenues for German private investment and technical collaboration, the industrialists at the same time will study the evolving political pattern as well as the new economic and fiscal measures the government is likely to introduce in the near future. Various talks with Indian and German industrialists and government officials as well as visits to plant sites will furthermore enable the delegation to evaluate the performance of the 450-odd existing Indo-German ventures in the past years.

The visit of the German businessmen is significant for the reason that Dr Hermann J. Abs, the leader of the delegation, is West Germany's leading banker and has been to India some years ago as a member of the World Bank team. In Germany, he was one of the first experts who advocated larger private investment abroad, particularly in the developing world. In fact, private investment in recent months has become a magic formula in West Germany. The economic institute, Ifo, in its latest survey concludes that German private investment abroad in future will become increasingly important. It is believed that the recent revaluation of the D-mark will give an additional impetus to this development, while the balance of payment surplus and the shortage of labour are considered equally important factors.

According to the survey, West Germany with its total foreign private investments ranks behind the USA, Britain, France, Canada and Switzerland, the main reason being that the country's economy had to be rebuilt from scratch after World War II and relied heavily on self-financing. However, it is also noted that German foreign investment has been growing rapidly of its own accord in recent years and that many companies which were entirely preoccupied with their domestic financing problems only two or three years ago are now expanding overseas.

This new spirit of adventure is the result of two developments : (1) The high amount of loose cash in the tills of industry, as the result of two exceptionally profitable years and booming exports, which have brought in large amounts of foreign exchange; and (2) Germany's chronic shortage of labour and high wage costs. The number of foreign labourers employed in West Germany now has reached an all-time high of almost 1.4 million. Moreover, German wage costs per unit of production, which have been the highest in Europe for a number of years, are climbing again. This consideration has caused a number of big companies to build production centres in countries with reserves of cheap labour. Quite often they are able to develop a cadre of workers built up on a hard core of local employees trained in their own plants in West Germany.

Further Advantage

Siemens, Germany's largest manufacturers of electrical goods, as well as other companies have found a further advantage in the current boom with its prolonged delivery dates and over-crowded order books. They have been able to import badly needed components for their domestic production from their own plants in foreign countries.

German overseas investment has been growing at an increasingly rapid rate and has almost doubled in the past four years. Whereas the ratio of domestic to foreign investment was 2 : 1 in 1966 it now is 1 : 1 in the most important industrial branches. The rate of growth of German foreign investment has hovered around 20 per cent for several years and has been exceeded only by that of Japan. Nevertheless, the German performance is still small in view of the country's position as the second largest trading country in the world.

West German foreign investments now total around 14,000 million D-marks ($3,500 million) compared with $61,000 million for the US and $12,500 million for the UK followed by France, Switzerland and Canada. The most disturbing aspect of this foreign investment gap, however, as Germany's doyen of finance, Dr H. J. Abs, points out, is that Germany's enormous export volume is disproportionately based on the output of domestic plants. Only about 12,000 million D-marks ($3,000 million) of the country's total exports of 90,000 million D-marks ($22,500 million), are produced in foreign-based plants, whereas the output of American foreign-based subsidiaries is nearly four times as great, as exports from US-based plants. West Germany, which exports around 20 per cent of its gross national product, is thus far too

dependent on international economic trends for its prosperity and the more German exports expand the greater is this disequilibrium

The answer to this dilemma in the opinion of government and industrial experts is to convert foreign portfolio investment into direct investment in foreign industry. There are, however, a number of obstacles. In the first place, Germany has lost its entire investment estimated at around 20,000 million D-marks ($5,000 million) twice in the past fifty years as the result of world wars. It is not easy for the companies which still carry these losses on their books to forget about them and begin investing all over again. Then too, German exporters have between 60 and 80 million D-marks ($15-20 million) in uncovered bad debts on their books, accumulated since the last war, primarily as the result of export deliveries to developing countries. A further discouraging factor is created by the difficult conditions placed on foreign investment by both industrial countries and developing countries.

Investment Stronghold

For a number of leading German firms India is an investment stronghold. The two electrical giants, Siemens and AEG-Telefunken have been active in business in that country for more than 50 years. Bosch is also expanding here and Daimler-Benz is a partner in the Tata works, which supplies most of India's bus and truck requirements. While BASF India is manufacturing Polystcrene and tanning agents at Bombay, Hoechst put a new plastics plant on stream near Bombay last year and has pharmaceutical and dyestuff plants in operation in the vicinity. Siemens and AEG-Telefunken also have investment footholds throughout West Asia and have built many of the largest modern power projects in that part of the world.

South America — traditionally a centre of German overseas investment — is again becoming a focal point for German investment and trade, with VW at the top of the investment list with its enormous production centres in Brazil and Mexico. Daimler-Benz also has a Brazilian production centre which is expanding rapidly, and Bosch, one of Germany's famous electrical goods manufacturers, has large plants for production of automotive electrical equipment in Brazil, Argentina and Mexico. Mannesmann is in Brazil, too, with a giant steel complex dating from before the war.

Capital investment in the development countries, however, accounts for only 4,000 million D-marks ($1,000 million) of Germany's total foreign investments of 14,000 million D-mark ($3,500 million) and critics of the country's foreign investment performance point out that this is its weakest link. Industrial experts, however, rejoin that there are many practical obstacles to investing in this part of the world. Investments ultimately have to produce profits and under even the best of conditions it is a number of years before a foreign subsidiary ceases to tap the parent company for investment financing and begins to pay a return.

An additional handicap in the field of foreign investment is that big German companies have difficulty in finding young German executives who are willing to sacrifice advancement at home in order to spend a few years managing their company's foreign subsidiaries. This perhaps will change as German industry becomes foreign investment oriented and develops a foreign service for its executives of the kind long familiar to British and Dutch companies with extensive foreign holdings.

Chemical Industry

West Germany's chemical industry leads the field in foreign investment accounting for almost 20 per cent of the total. This is not particularly remarkable in view of the pronounced international character of the chemical industry as such and the rapid expansion and great profitability of the German chemical industry. BASF, Bayer and Hoechst have planted multiple flags on every continent and have even succeeded in penetrating the protective barriers set up around Japan's industry by developing subsidiaries in co-operation with Japanese firms. BASF rapidly switches from its historic position as a producer of chemical raw materials to the role of chemical conglomerate.

The electrical engineering and automotive industries each account for around 10 per cent of West German foreign investment. Siemens' foreign production centres contributed 1,600 million D-marks ($400 million) to that company's total foreign sales of 3,600 million D-marks ($900 million) last year. The Siemens management is aiming at a 50 : 50 ratio between foreign and domestic sales and foreign subsidiaries are expected to play an increasingly important role. Approximately 200 million D-marks ($50 million) are being invested abroad this year.

Volkswagen, which is West Germany's largest exporter, had a total turnover of 11,600 million D-marks ($2,900 million) last year, of which foreign sales accounted for 8,800 million D-marks ($2,200 million). Nearly one-third or 2,100 million D-marks ($ 525 million) of this business was done by the company's foreign subsidiaries. Daimler-Benz maintained approximately the same ratio with around one-third of total foreign sales of 3,400 million D-marks ($ 850 million) being credited to its foreign subsidiaries.

The long-range economic significance of the overseas investments of some of West Germany's other corporations far exceeds their intrinsic value. One of these is the Bong Project in Liberia, where four of Germany's biggest steel producers — Thyssen, Hoesch, Krupp and Rheinstahl — have joined together to mine high-grade iron ore. Germany imports around four-fifths of its ore requirements and the 100 million D-marks Bong project is estimated to be supplying around 10 per cent.

Programme in India

A group of German industrialists will arrive in Bombay on January 11 and have discussions with Mr G. L. Mehta, Chairman of the Indian Investment Centre, state government members, bankers and Indian and German industrialists. From Bombay they will visit Baroda and Poona and then proceed to Bangalore, Madras, Calcutta, Jamshedpur and Rourkela. The longest period of time will be spent in New Delhi where the delegation will reach on January 19 and have discussions with the Prime Minister and all the economic ministries.

The delegation in its majority consists of presidents of the largest West German enterprises. This indicates the continued interest German investors have in the Indian market. Apart from Dr Abs, the delegation comprises Dr Peter von Siemens (Deputy Chairman of Siemens AG, Germany's largest manufacturers of electric

goods with 260,000 employees), Mr G. Vogelsang (President of Fried. Krupp, Essen), Dr J. Zahn (President of Daimler-Benz, famous makers of Mercedes-Benz cars), Mr H. L. Merkle (President of Rob. Bosch, largest makers of auto accessories and household appliances), Mr T. Schmuecker (President of Rheinstahl, Essen-based coal and steel combine), Mr Otto Wolff von Amerongen (President of Otto Wolff group of steel companies), Dr Prinz (Director of Volkswagen, Germany's largest car manufacturers), Mr H. E. Bachem (Director of Reconstruction and Loan Corporation) and Mr Dohrn (Director of Commerzbank).

The largest Indo-German ventures in operation at present are Siemens India (Electric motors, transformers, switchgear and medical equipment), Mico-Bosch (automobile accessories), NGEF (electrical equipment in collaboration with AEG Telefunken), BASF India (Polysterene and tanning agents), Widia India (tool steel in collaboration with Krupps), Telefunken India (transistor radios and components) and Utmal (heavy machinery in collaboration with GHH-Oberhausen). Krupps have been instrumental — together with Demag and others—in setting up the Rourkela steel plant in the fifties and are now engaged in the Gujarat aromatics project Daimler-Benz, 15 years ago, entered into one of the first joint ventures in India, Telco in Jamshedpur, producing Mercedes Benz buses and trucks. In view of India's need to bridge the gap in the trade balance it has with many industrial countries, leading German firms like Siemens and AEG have already started to increasingly import products from their joint ventures in India.

From Mass to Elitist Society

KRISHNA CHAITANYA

THE problem of power in societies, especially the modern ones which have witnessed an immense step-up in the means and tempo of mutual communication among the groups and individuals that compose them, is the protean disguises that the actual foci of power assume when one tries to identify them with precision. The freedom of the press may on occasions be the libertinism of the money that owns the press. Parliaments and similar bodies may become the forums for a vast, vicious ventriloquism which makes it difficult to run down the prompters behind the voices. But the public mind has become less naive in recent decades and there is an increasing number of books and articles about the military-industrial elite, the new managerial class, the image-makers and taste-makers, those who control the mass media, the experts in vote-getting.

Governing Elites, edited by Rupert Wilkinson (Oxford University Press, 1969, p 231,60 Shs.) is not strictly an expose of this type. It is not concerned with unravelling the actual foci of power, but moves to a close-up of the functional stratum in societies whose responsibility it is to translate the mandates in terms of the administration of the hierarchical structures that maintain the life and continuity of social wholes. To this extent, it is academic. But it is weightily and satisfyingly so. Henry Selby's study of elite systems of mobile and immobile societies, Robert Bolgar's analysis of the contrast between Athenian elite education and the training of the Spartan ruling caste, Corelli Barnett's paper on different traditions of military training and the other contributions on the training of administrators in the Ottoman empire, in France and in today's Japan, are all distinguished by thoroughness and care in the selection of data and sobriety in analysis.

Josslcyn Hennessy's paper on British education for an elite in India (1780-1947) deserves comment in some more detail, not only because the subject is of special interest to this country but also because it is well-documented, ably argued and has cues for action we should take seriously. The loss of the tyrannical father image of the alien ruler was initially a serious threat to the defence mechanisms of the national psyche. It was not that alien presence was not in fact responsible for many evils. But, earlier, it was being too often and too conveniently used as a scapegoat, on which every conceivable ill could be blamed.

Verdicts were prejudged by prejudice, not shaped by sober judgment that went deep into facts. Typical of this attitude was the rationalist appraisal of Macaulay's Minute of 1835 on English Education. Its more sober appraisal is certainly not an original contribution by Hennessy; for, as far back as in 1947, K. M. Panikkar pointed out that, in spite of its tactless wording, Macaulay's main thesis "of an education based on the New Learning, and through the medium of English, was the most beneficently revolutionary decision taken by the British." But Hennessy gives further illuminating background. He reveals that it was the leaders of the British Evangelical movement, who held positions of authority in the East India Company and had great influence in the House of Commons, who initiated an official educational programme in India; but this programme was primarily meant to spread literacy so that the Indian masses would be receptive to proselytizing drives; and for this purpose an orientalist education was more than sufficient.

Delightful Casuistry

There is casuistry, but of a wholly delightful and thoroughly justified kind, in Macaulay's argument that what Parliament intended could not have been an orientalist education, but must have been the new learning. And if any nationalists today still want to swear wrathfully at Macaulay, they should include Ram Mohan Roy also in their anathema. For Roy wrote: "If it had been intended to keep the British nation in ignorance of real knowledge, the Baconian philosophy would not have been allowed to displace the system of school men, which was the best calculated to perpetuate ignorance... But as the improvement of the native population is the object of the government, it will consequently promote a more liberal and enlightened system of instruction, embracing mathematics, natural philosophy, chemistry, and anatomy with other useful sciences...."

And if criticism, silenced on the issue of modern learning, concentrates on the choice of the English medium, Hennessy can quote Panikkar. "What was the alternative? Even the most advanced Indian languages... had not reached the level of literary standards for secondary education. Education up to university standards would have been impossible without decades of preparation." The mention of preparation projects the Minute of 1835 like a missile right into the midst of contemporaneity. Can we honestly say that the

replacement of English as medium in higher education today in many universities has been decided upon after really adequate preparation?

There is an initial impression of anticlimax in Hennessy's massively documented and argued paper thinning down towards the end to a defence of the public school system. Nevertheless there are pointers here for further thinking. One valid criticism of public school education was that the boys did not acquire sufficient knowledge of Indian tradition. That criticism is losing much of its force today, not necessarily because things have improved in public schools, but because the students of the other type of schools are turning out to be no better. That being the situation, one might devote serious thought to the problem of how to gain for the general system of education the positive qualities of the public school system.

The Ultimate Mandate

This issue is vitally relevant not only to the basic theme of the book but also to the imperative of acquiring an elitist quality to the governance in this country. It is clear that the theme modulates here in a subtle way and opens out to new horizons beyond the confines of the book. For, in an ideal democracy, there should not be a governing elite, at least of the type which existed formerly in India when the administrative hierarchy derived its authority not from the people but from an alien power that exercised sovereignty

That a class should exercise administrative authority is not incompatible with the ultimate mandate for governance emerging from the people. But the quality of that mandate will depend upon the nature of the individual citizens which in turn will depend on the type of education which moulds them. Here Hennessy makes a very important point: while education for the public services and for business began sufficiently far back to penetrate and consolidate itself over several generations, education for public life, by contrast, has been too recent and has spread over too few numbers. The adoption of universal suffrage has aggravated the difficulties. But since there can be no going back on it, the task is to ensure that every individual acquires the temper and judgment associated formerly only with elite types.

To many this would seem an impracticable ideal and probably they are right. But Plato related the just governance of the state to the harmonious self-governance of the individual and to throw in the towel without an earnest effort to see whether the latter can be achieved would be to admit that democracy will always be a facade, a sham.

The subtitle of Wilkinson's book is "Studies in Training and Selection" — of governing elites. The problem grows appallingly in dimensions when it modulates to the training of all for elitist quality. While the task of formulating an adequate system is beyond any one individual, this much can be said : the orientation has to shift from mere information and data to ability to evaluate and judge.

Here, at the risk of being considered a revivalist, one would quote from what amounts to a convocation address by the teachers to the students on completion of their education, in the Taittiriya Upanishad. "Whatever actions of ours were blameless, those you must follow, not the others. Whatever acts were good in our conduct, those shall you respect, not the others. And those teachers who are superior to us, them you should honour...." The most remarkable feature of this address is its careful distinction between indoctrination, which leads to blind conformity and acceptance, and education which strengthens the critical spirit.

Specifically applied to the problem of government, such a critical spirit will enable the citizen to discriminate between the precepts paraded by the demagogues and their practice. The role of oratory in Athenian democracy has had a concealed prolongation in the control of the media of mass communication today and there is at least one party that has specialised in the use of the old-world, pure and simple oratory. Without the training for a critical temper which alone can transform the bulk of mass society into elitist society, the handouts dished out by the bureaucracy about its own achievements will be lapped up without the least credibility gap and the charismatic halo will remain secure around the smug visages of the Aya Rams and Gaya Rams.


QANTAS

FROM THE PRESS GALLERY

MONOPOLIES BILL APPROVED

OUR PARLIAMENTARY CORRESPONDENT

NEW DELHI, Saturday:

BEFORE Parliament adjourned after its winter session on Christmas-eve, it set its seal of approval on the Monopolies and Restrictive Trade Practices Bill. Two other important bills adopted by it, since we reported last, were the Constitution (23rd Amendment) Bill and the Meghalaya Bill.

The Monopolies and Restrictive Trade Practices Bill, which had been adopted by the Rajya Sabha during its last session, was passed by the Lok Sahba on December 18, in the face of stiff opposition from not only the Swatantra and the Jana Sangh groups but also from many other opposition members, including those belonging to the Congress party (O). The bill, according to the Minister for Industrial Development, Company Affairs and Internal Trade, Mr Fakhruddin Ali Ahmed, who piloted it, sought to check the tendencies observed in the past few years of wealth accruing from industrial development going into the hands of a few to the detriment of the community at large.

Government Monopoly

It was alleged by the critics of the bill that it not only sought to concentrate all political and economic power in the hands of the government, but will also restrict competition, exports and employment opportunities and would retard economic growth. They pointed out that there were no monopolies in the private sector; of the 10 big companies in the country, nine were government-owned.

The critics also stressed that the measure was completely divested from economic planning. Instead of laying down clear-cut policies for the guidance of entrepreneurs, it wanted every entrepreneur to go to the government and satisfy it that his venture would not develop into a monopoly. Though the objectives of the legislation,they argued, were laudable, its approach had not been properly worked out. The blanket powers which the bill sought to confer on the government, it was feared, would lead to dilatoriness and widespread corruption. It was also pointed out that after the passage of the bill, foreign companies, with holdings of millions of dollars, would not be inhibited from expanding; the restriction would apply only to indigenous companies. The leftist members of the House, however, felt that the measure did not go far enough.

The attempts of the opponents of the bill to get included within its purview public sector undertaking failed. The Minister for Industrial Development objected to this by pointing out that public sector undertakings could not be termed monopolies because they worked for the public good. Moreover, he pointed out, Parliament was there to correct if anything went wrong with the public sector. Who is there to check monopolies of the private sector, he asked.

Reservation of Seats

The Constitution (23rd Amendment) Bill, which sought to extend the period of reservation for the scheduled castes, scheduled tribes and Anglo-Indians in Parliament and state legislatures for 10 years from January 26, 1970, was passed unanimously by both the Houses, even though there was expressed a good deal of criticism on the inclusion of Anglo-Indians within the scope of this bill. The Meghalaya Bill, which sought to create Meghalaya as a sub-state within the State of Assam, was generally approved by all the sections of Parliament.

The treasury benches, however, were put to a good deal of embarrassment when a non-official resolution in the Rajya Sabha calling for a decision on the abolition of privy purses and the special privileges of the erstwhile rulers of the princely states was adopted by a voice vote. It was interesting to find that on this issue several members of the ruling party also sided with the opposition.

A clear evidence of the alignment of the ruling party with communists, the DMK, the Muslim League and the Akali Dal was available on many occasions. The support of communists members, particularly belonging to the right wing, even on the issue of the non-filing for 10 years of his income returns by the Minister for Food and Agriculture, Mr Jagjivan Ram, indeed came as a surprise. Mr Jagjivan Ram's this lapse was scathingly criticised by all the major opposition groups, except the right communists and the DMK who argued that not only many others were guilty of this charge, but that there were political motives in raking up this issue. The elections of Mr G.G. Swell and Mr B.D., Khobaragade to the Deputy Speakership of the Lok Sabha and to Deputy Chairmanship of the Rajya Sabha, respectively, also gave enough evidence of this line up, although CPM sided with the other opposition parties in the election of Mr B. D. Khobaragade.

Nationalisation of Sugar Industry

During a 5½-hour discussion in the Rajya Sabha on December 9, on the demand for the nationalisation of the sugar industry, the Minister of State for Food and Agriculture, Mr A. P. Shinde, revealed that on the advice furnished by the union Law Ministry, the Food and Agriculture Ministry had told the Government of Uttar Pradesh that a state government could also acquire an industry in its jurisdiction.

The Food and Agriculture Minister, Mr Jagjivan Ram, announced later on in a two-hour debate on the government's sugar policy in the Lok Sabha on December 15, that a committe would be set up shortly to study the working of the sugar industry in the context of the demand for its nationalistion. The committee would examine the problems relating to factory-canegrowers relationship, cane prices, return on investment and performance of plants.

While agreeing with the critics that the sugar policy of the government constantly swung between "control, partial control and decontrol", Mr Jagjivan Ram asserted that the nature of the industry was such that a permanent sugar policy could not be had. The policy of partial decontrol which was being followed currently, he pointed out, had been a beneficial one.

The recently announced decision of the Prime Minister to expand the refining capacity in Assam by about one million tonnes came in for sharp criticism during a short discussion on the subject in the Rajya Sabha. It was alleged by the leader of the opposition in this House, Mr S. N. Mishra, that political reasons had prompted this decision. The allegation was stoutly refuted by the Prime Minister, Mrs. Indira Gandhi, who asserted that the decision was neither

politically motivated nor was it taken in a hurry. If at all, it was taken belatedly and after a good deal of thought being bestowed on it. Mrs Gandhi pointed out that the present crude oil pipeline from Assam to Barauni could not take more crude. The expansion of the Barauni refinery, therefore, had to be based on crude oil from sources other than Assam.

While clarifying her government's decision on the expansion of the refining capacity in Assam, the Prime Minister denied that any state was being discriminated against, as alleged by some members. The government, she said, approached the problem of developing underdeveloped states in an integrated manner, but the lack of resources came in the way.

Land Reforms

A good deal of concern was expressed in the Rajya Sabha over the delayed implementation of land reform schemes. Some leftist members thought that Article 226 of the Constitution relating to property rights would have to be amended in the interest of expeditious implementation of land reform measures. Mr A. P. Shinde, however, denied that the Constitution stood in the way of land ceilings being reduced or reforms being carried out. Land laws, he said, were complicated in many cases. The Agricultural Commission, which was proposed to be set up soon, would be asked to examine the existing laws and suggest measures to simplify them. The November conference of state Chief Ministers on land reforms Mr Shinde thought, would prove a landmark. This was, however, disputed by many members who styled the conference just as a "hoax".

Parliament has voted Rs 18.52 crores supplementary demand for grants of the union government for the current financial year. The main item of additional expenditure included in these demands was the payment of interim compensation to the 14 banking companies which were nationalised in July last; it accounted for Rs 14.25 crores out of the total Rs 18.52 crores. It is estimated that Rs 7.5 crores will be paid to the nationalised banks in cash and Rs 6.75 crores in securities as provided in the Nationalisation Act. The increase in expenditure is estimated to be offset to the extent of Rs 10.20 crores by higher receipts and recoveries. The net outgo from the consolidated fund, therefore, will be Rs 8.32 crores.

The Minister of State for Finance, Mr R. K. Khadilkar, announced in the Rajya Sabha on December 19, that the government proposed to appoint a committee of experts to review the working of the administrative machinery in the income-tax department with a view to making it more effective in dealing with tax arrears, tax assessments and black money.

Mr Khadilkar revealed in the Lok Sabha on December 22, that the government would announce by January 15, a reduction in the premium rates payable on without-profit life insurance policies.

IMF Quota

The other Minister of State for Finance, Mr P. C. Sethi, revealed in the Lok Sabha on December 15, that the Government of India was going to ask the World Bank and the International Monetary Fund not only for a larger quota for the developing nations, but also for a greater voice for them in their control and management. Mr Sethi further stated that the drawing of special rights depended on each country's IMF quota. At present our quota at $ 750 million was the fifth largest, but it is likely that the proposal to revise quotas on considerations of each country's share in world trade and its gross national product might affect it. The quotas of Japan, Canada and Italy might go up. Our quota might also go up but in relation to these countries it would be less. We might, therefore, lose our right to a nominated position on the boards of the two world institutions. A proposal, Mr Sethi disclosed, had been mooted by the developing countries to do away with the nomination system altogether and to replace it by an elective system.

Mr Sethi disclosed in Lok Sabha on December 8, during the question hour, that the purchasing power of the rupee had gone up in the last 12 months by 1.4 per cent, measured by the 12-monthly average of the all-India working class consumer price index.

In reply to a question in the Rajya Sabha on December 9, Mr Sethi said that the government had no proposal to demonetise the currency to get hold of black money. The demonetisation of Rs 100 notes, he added, would involve about 48 per cent of the total currency. The previous scheme of demonetisation, Mr Sethi observed, had also not been "useful".

The Minister of State for Steel and Heavy Engineering, Mr K. C. Pant, revealed in the Lok Sabha on December 8, that a proposal to expand the Bhilai steel plant from 2.5 million tonnes of ingot steel capacity to 3.2 million tonnes during the fourth Plan period was being considered. The expansion of the blast furnace capacity to make pig iron had already been taken up; it was expected to be completed by the middle of 1971. Mr Pant also disclosed that the setting of a seamless tube plant at Bhilai was also being considered.

Bokaro's Capacity

The Minister for Steel later on told the Consultative Committee of Parliament attached to his ministry that efforts were being made to expedite the expansion of Bokaro to four million tonnes capacity in view of the shortage of flat products. Some additional provision for this programme was being pressed for inclusion in the fourth Plan.

The fears about a mid-term poll were repeatedly expressed in the Lok Sabha, although the Minister for Law, Mr Govinda Menon, assured members that neither the dissolution of Parliament nor a mid-term poll was contemplated by the government. The Law Minister conceded that the Constitution was silent on whether the Prime Minister's advice for the dissolution of Parliament was binding on the President. The Constitution, he added, merely said that the President shall dissolve Parliament. The question, Mr Menon added, was primarily of convention which in our case had to develop. Mr Menon further said that the issue was a political one; it could not be settled by a reference to the Supreme Court. The leader of the opposition (who has now been formally recognised by the Speaker), Dr Ram Subhag Singh, asserted that the President should not heed the Prime Minister's advice to dissolve Parliament, if offered. Other parties, he argued, should be given a opportunity before Parliament was dissolved, to try for an alternative government.

The Law Minister defended the Chief Election Commission in respect to the allegation that it had acted in a hurry in revising the electoral rolls and that postponment of by-elections had been ordered at the government's suggestion. The "crash programme" of up-dating the electoral rolls, Mr Menon said, had become necessary in view of the fact that some 40 million eligible voters were not registered.

WINDOW ON THE WORLD

FRENCH EXPERIENCE IN GROWTH

JOSSLEYN HENNESSY

I

LAG IN TIME

LONDON:

THE rate of growth of an economy is irregular. In the present state of economic knowledge and social evolution it is impossible entirely to eliminate this irregularity — even with (as some people would say), or still less with (as I would say), the strictest planning. It is, nevertheless, obviously desirable to try to diminish the intensity of irregularity in economic growth, since the imbalances that follow have serious consequences : they produce (1) rising prices and balance of payments deficits during the period of overheating and unemployment, (2) falling profits and decreasing investment in the ensuing period of restriction.

The techniques used today to counter overheating or recession are much more effective than in the interwar years, but their effectiveness is still relative and their application is a delicate job. It is, in particular, difficult to measure exactly the degree of intervention needed to produce a given effect and to decide the precise moment when action should be initiated or halted. There is the risk that the authorities, may let loose an upsurge which will get out of hand, or may induce a real recession when all that they want is some cooling off. Then you come up against the problem of the "lag in time": there is often a long delay between the moment when the need for intervention is seen and the moment when the effects of the intervention are felt.

Measures Needed

The measures needed often involve widespread consultations, reconciliations of apparently divergent interests, and perhaps votes in Parliament. Once initiated, the measures may not "bite" immediately because those affected may be slow to grasp the consequences of some new turn of events or policy and to adapt themselves accordingly. It has often happened that a deflationary measure, decided upon while overheating was still obvious, begins to take effect when the curve has turned from rising to, horizontal or has begun tc fall. The contrary — that expansionist measures begin to take effect when the curve has ceased falling and is on the rise — is just as common.

A government's basic need, then, is to have at its disposal up-to-the-minute data and statistics which enable it to detect the first signs of overheating. By the time that the rise in prices has begun to accelerate, or the balance of payments deficit has become noticeably worse, it is often too late to act. Action must be taken as soon as tension in the mechanism of production appears : difficulties of supply, lengthening delivery dates, labour shortages.

II

SUPPLY SHORTAGES

In normal periods, supply crises do not affect raw materials or primary products, because the markets in these commodities are usually world-wide. A topical example of this, which occurs to me, is the strike of the nickel mines in Canada, which produce 80 per cent of nickel produced by non-communist countries. There has been pressure no nickel prices, but the immediate effect of the prolonged strike has been to boost production in existing Australian mines and to stimulate the discovery of new mines between Windarra, Kalgoorlie, and Esperance in western Australia. However, the worst that can happen to raw materials, from the consumer's point of view, is a general rise in their prices, as has happened, in general, since the autumn of 1967, and more recently to nickel in particular. On the other hand, supplies of semi-finished goods for processing industries become difficult.

Among the questions which the INSEE (French National Institute of Social and Economic Statistics) puts to enterprises at regular intervals one seeks to ascertain whether failing supplies are impeding the expansion of production. Normally around 1 or at the most 2 per cent of enterprises reply "Yes". In periods of overheating, however, the percentage swings up: thus in the autumn of 1957 it rose to 20 per cent, while in June, 1967, it was 8.9 per cent.

The explanation of such variations is that certain sectors, which have unutilised spare capacity, can respond rapidly to an upsurge of demand, but further along the line their supplies may not have the same flexibility and may be compelled considerably to lengthen their delivery dates. The process spreads by contagion, and if no quick relief is possible from imports it can cause what is known as "overheating unemployment" among producers short of stocks. More detailed knowledge of inter-sectoral exchanges and the further development of forecasting techniques should enable to be reduced such economic tensions as are chiefly caused by irregularity of demand, often accentuated by inefficient handling stocks, specially in the distribution stage.

III

SHORTAGES OF NEW PLANT

The number of French enterprises declaring their inability to expand production for lack of machinery or plant varies greatly according to the evolution of the state of the economy: between 1952 and the beginning of 1958 the numbers fell substantially. They began to rise from 1959 and continued to rise irregularly till 1964, when a decline began. A new rise started early in 1968 and by June, 1969, 28 per cent of firms replying to INSEE questionnaires reported inability to expand for lack of plant.

In efforts to satisfy a strong growth in demand, enterprises are often led initially to bring back into use plant abandoned as obsolete. This source is usually expensive and quickly exhausted. The only adequate solution is new plant. Demand for capital goods always rises strongly when the economy is on the rise, and this rise contributes to increase tensions.

Investments the sole effect of which is to increase production capacity contribute little to cooling off, because they require additional hands to bring them into service. This does not, of course, apply to investments which lead to increased output, but the relative slowness of many innovations, difficulties of financing, and delays in delivery of new installations rarely allow substantial and immediate rises of productivity. Indeed productivity tends to rise more

slowly in periods of overheating under the law of diminishing returns.

This phenomenon emerges from a study of the INSEE's statistics on the evolution of productivity between 1957 and 1966 (see table).

INDEX OF PRODUCTIVITY IN FRANCE

(Per cent)

1957	3.4
1958	1.9
1959	2.7
1960	5.2
1961	2.4
1962	3.8
1963	2.1
1964	2.7
1965	2.6
1966	2.9

A big fall in productivity is noticeable in 1958, a year which opened to marked overheating and during the course of which severe deflationary measures were imposed. The same applies to 1963. By contrast, it is the beginning of periods of economic upswing that witness the best productivity results as, e.g. in 1960. The economic imbalances and government interventions that overheating causes reduce the economy's long-term growth rate.

IV

LABOUR SHORTAGES

When you examine INSEE's statistics on the evolution of the French economy from beginning of 1953, you find that the percentage of enterprises unable to expand production because of labour shortages rose steadily up to the autumn of 1957 from 2 per cent to over 20 per cent. The incidence of the deflationary measures taken then were noticeable, since the percentage of enterprises reporting labour shortages fell to 3 per cent in March, 1959. The rise thereafter was both more moderate and more irregular; it was temporarily interrupted by the massive repatriation of French citizens from North Africa in 1962-63, and thereafter the stabilisation plan induced a fall. In March, 1968, another rapid rise began, attaining 17 per cent by June, 1969. It would doubtless have risen higher if some enterprises had not referred only to "production bottlenecks" in their replies to questionnaires when, in fact, they could not find additional workers needed to run additional plants.

It remains to explain an apparently paradoxical phenomenon : labour shortages can become acute, as in France since the spring of this year, while the unsatisfied number of jobs sought remains high; at the end of June, 1969, this was 190,000, whereas simultaneously more than 20 per cent of enterprises reported inability to expand production in default of labour and the unsatisfied number of jobs on offer continued to rise.

This total, which includes only an insignificant number of seasonal unemployed, doubtless represents a residual of unemployed, which cannot be eliminated in the short-term.

Residue of Unemployed

Who are they? In the first place they include 30 to 40 per cent of workers who register as unemployed, find a job in less than three months, and who constitute a mobile group on the labour market essential to the flexibility of the mechanism of production and to the consecutive development of productivity. Secondly, more than 15 per cent of the unemployed are over 60 years of age, and it is difficult to find jobs for them. Thirdly, there is a quota of handicapped workers who, although not entitled to social security benefits, are unable for physical, or more likely psychological, reasons to take up most of the kinds of jobs on offer.

After deducting these three groups, there remain something less than 80,000 unemployed. For a complete assessment of the apparent "labour reserve", up to 25,000 must be added, who are looking for jobs but who, for one reason or another, do not register themselves as unemployed. These are mostly married women, retired persons, or young people supported by their families. In reply to questions they declare themselves to be in search of a job but that since they are not in desperate need, they are going to pick and choose. This last group cannot be termed as "unemployed", and if they are to be regarded as a labour reserve, it must be noted that they are a reserve which can be only partially relied upon.

Thus according to the broadest assessment, in June-July, 1969, the total of the French labour reserve apparently available (80,000 job seekers plus 120,000 unregistered) but in fact unutilisable at that moment was about one per cent of the total labour force. This percentage is admittedly small, but is probably higher than in a country like West Germany. This is partly because of the lack of mobility of labour (regional pockets of unemployment still persist) but more especially because of lack of, or unadapted, professional skills at all levels. Many badly advised young people are wrongly educated from the viewpoint of the market demand for skills. Far too many are equipped only for jobs in the tertiary sector; others have only the most rudimentary education. As yet French schools and universities are failing to train people ready, able, and accustomed to the idea of several changes of skills, professional or other, in the course of their working lives—a need of the future in all industrialised economies to which I have frequently referred in previous reports.

V

DEMAND EXPANSION

The conclusion that these facts suggest is that policy for growth based on expanding demand quickly runs up against limits. The expansion of demand might well have been a sensible basis of policy in the interwar years, when many countries had unutilised surplus production-capacity and large numbers of unemployed workers. But since World War II the margins of unutilised capacities, both in plant and in labour, have been narrow over most of the industrialised west. In France, the narrowness of the margin is clear when one notes that the maximum unsatisfied number of jobs sought since the war (286,000 in June 1968 in seasonally corrected figures) did not one year later exceed about 65,000 (0.33 per cent of the total labour force, industrial and agricultural) registered unemployed, a total apparently irreducible in the short-term. Recruitment of foreign workers admittedly enables a number of basic unskilled vacancies to be filled, but the numbers available in the countries from which these recruits come is diminishing in its turn, in addition to which it is frequently necessary to provide training periods for foreigners before they can be put to work.

It follows that a too rapid expansion of demand inevitably gives rise to production bottlenecks, and quickly leads to the need to impose "austerity" measures, whose enforcement is difficult and unpopular. The aim should be to ensure that the growth rate is kept as steady as posible and that

the authorities should seek to perfect the refinement of the "indicators of overheating" and formulate their policies accordingly.

Sources and acknowlegements : The foregoing draws on a report in the latest issue of the *Economic Review*, published (in French) by the Banque Nationale de Paris, but the bank is not responsible for my interspersed comments based on a variety of sources.

Farewell to Old Friends

H. R. VOHRA

WASHINGTON:

NO country has promoted the popularity of DDT and artificial sweeteners more than the US during the last two decades or more. The prestige of its technology and Madison Avenue approach backed the two sets of chemicals. They combined to raise the products to a pedestal where they were hailed as saviours.

Now, ironically, it has fallen to the US to lead the reverse movement. The "saviours" have been dethroned and in the US, where their use is being restricted, the old friends have been labelled as potential enemies. The technology which evolved them is also responsible for their exit from the open US market.

Such is the nature of progress. Sometimes it devours its children even though they are only suspected to be harmful. In the case of the two items, solid proof at this time is lacking that they have indeed injured man. The US government is acting on the assumption that its course is prudent as it concerns public health.

Malignant Tumours

Artificial sweeteners have been removed from the list of substances generally recognized "as safe for use in foods." The step follows the finding that animals subjected to strong doses of cyclomates for long periods develop malignant bladder tumours. The fact has been confirmed by a panel of the National Academy of Science. The panel, however, admits that there is no evidence of cyclomates having caused cancer in humans.

Nevertheless, the government's order requires discontinuance of the sale of beverages containing cyclomates. The content of cyclomates in products to be consumed on medical advice will also be reduced to a minimum while food products containing cyclomates will show their quantity in an average serving if they are to be sold on a non-prescription basis.

The Medical Advisory Group on cyclomates has endorsed the prohibitions. It recognizes that "in the medical management of individuals with diabetes (and particularly in the case of juvenile diabetics) or patients in whom weight reduction and control is essential for health, non-nutritive sweeteners such as cyclomates can be a useful dietary adjunct."

Expert medical opinion also recognises that medical benefits in these instances outweigh the possibility for harm and recommends that products containing cyclomates continue to be made available on advice of a physician on a prescription.

The Medical Advisory Group has recommended continued research on cyclomates and other non-nutritive sweeteners to expand the present findings. This would relate to their effect on man.

Canada Goes Along

Canada has agreed to go along with the US. Interdependence of the two markets necessitates similar policies on cyclomates. This is particularly true of seasonally processed foods and vegetables. Their phase-out programmes must and will follow the same cycle. Other countries will also have to take a stand. There will be no restrictions on US exports.

This will also be true of DDT. Mr Robert H. Finch, Secretary, Department of Health says : "We are not interdicting the manufacturing of DDT for one very simple reason. Most of the DDT and the hard pesticides go abroad. In Africa, for instance, they feel, they need them to control malaria and we are not going to make a judgment. We can point out the dangers, but they feel they need them.... to give the people greater life expectancy." So the responsibility for their use or non-use would rest with individual countries. The US is satisfied in having raised the alarum.

The action in the US follows the recommendations of the commission on pesticides. It does not deny that our society has reaped tremendous benefits from the use of pesticides in preventing disease and in increasing the production of foods and fibres. The need will continue to expand for the foreseeable future. However, it takes account of the evidence which indicates that there are unintentional effects of pesticides on various life forms within the environment and on human health.

After carefully reviewing all available information, the commission has concluded that there is adequate evidence requiring corrective action. The US does not propose to wait until the last piece of evidence has been submitted on the many issues raised by the use of pesticides.

The main recommendation is drastic. The US seeks to eliminate all uses of DDT and DDD within two years excepting uses conducive to the preservation of human health. These would be approved unanimously by the secretaries of the departments of Health, Education and Welfare, Agriculture and Interior.

Abundant Evidence

The report observes, "Abundant evidence proves the widespread distribution of DDT and its metabolites in man, birds, fish and other aquatic organisms, wild life, soil, water, sewage, rivers, lakes, oceans and air. Evidence also demonstrates that these materials are highly injurious to some species and threaten other species and biological systems. Elimination of all non-essential uses is therefore sought to be achieved within the period of two years without excessive economic disruption".

Despite the steps which have been decided upon, little can be done to eradicate the residues of the pesticides in soil, water and air and in the food supplies of this country for a period of about 10 years. Efforts will be made to evolve methods for use of the food supply with minimal hazard to human health. It would also be necessary to enlarge research to gain further understanding of the persistent chemical in the country's environment.

The measures which the US is taking are the result of studies on animals. High doses of these chemicals administered to animals have produced tumours. Evidence does not exist which might conclusively prove that they are similarly injurious to man. There are innumerable inherent difficulties in fully evaluating the risks to

human health through the continued use of pesticides.

A detailed survey of case reports of incidents involving accidental poisoning by organochlorine pesticides reveals that they increase the excitability of the nervous system. Some of the compounds also damage the liver. Their capacity to penetrate human skin varies from one compound to another. Endorine, for instance, penetrates easily and creates "chemical intoxication." Others create acute toxity. Dieldrin and endrine have produced many cases of acute poisoning although DDT is relatively safe. Not enough is yet known of the results of man's prolonged exposure to low levels of pesticides in his environments.

The Commission on Pesticides backs its recommendations with these words : "To sum up, the field of pesticide toxicology exemplifies the absurdity of a situation in which 200 million Americans are undergoing life-long exposure, yet our knowledge of what is happening to them is at best fragmentary and for the most part indirect and inferential. While there is little ground for forebodings of disaster, there is even less for complacency. The proper study of mankind is man. It is to this study that we should address ourselves without delay."

Socialistic Measure

While the federal government is moving energetically to guard against potential chemical enemies it is being backoned by growing political opinion, supported by a commission of experts to tackle its problem of poverty through an advance socialistic measure. What can be more socialist, for instance, than a programme providing income without work? I wonder if there is any such plan even in communist countries.

Let it be said immediately that the new thinking is not intended to supplant America's relatively free economy but to buttress it. That is the main difference between the US and other countries which profess socialism as a goal.

The new economic thinking in the US has discovered that despite the general affluence, there are poor in this country and they number nearly 25 million. They are adjudged poor because they belong to families who earn less than $3,533 per year or $2.43 per person per day. In contrast, to this poverty index, a Department of Labour Study has found that family of four needs at least four dollars per person per day to meet its needs.

There have been a lot of hearings on this subject this year. On one point they seem to agree. You don't need to be unemployed to be poor. There are working poor too in this country. Over one-third of the poor live in families in which the family head works throughout the year.

Again, the barren life styles of the poor are not primarily the result of ignorance or indifference. But rather they are the result of insufficient money. It is to this kind of problem to which the new thinking addresses itself.

The old welfare approach, relying on employment to provide adequate income, is adjudged to have failed. It has not eliminated poverty and cannot. Therefore, a revolutionary new idea has taken root. Its main fruit is the concept of a basic universal income financed and administered by the federal government. It would make payments, based on income needs, to all members of the population. The payment would vary by family size and would provide a base income for any needy family or individuals.

The proposal also provides for reducing basic payments by 50 cents for each dollar of income from other sources. This formula would encourage recipients to continue working or to seek employment and would not discourage continued development of private savings and insurance.

There are many suggestions about the proposed base income. The Commission on Income Maintenance favours a base income of $2,400 to a family of four. Families of four with other income resources would also receive a supplemental income. The programme would cost the country $6 billion. This would total up to the net additional income for some 10 million households.

The benefit level would be raised as rapidly as is practical. To set payment levels at the poverty line would cost the exchequer about $27 billion and would cover 24 million households. The $6 billion programme is only a beginning. It would help reaffirm this country's "respect for the worth and dignity of its citizens...."

Co-Operative Effort Against Financial Crises

E. B. BROOK

VIENNA:

THE Common Market's Hague summit conference has come and gone and west Europe, almost to its surprise, is a little, but only a little, the stronger for it. Had there been evidence of an overall, more far-going, generous spirit, matters might have been different. As it is, the Market is, wisely, strengthening itself by establishing a mini-federal reserve system and has, unwillingly on the part of the French senior partners, agreed to begin discussions on British entry again by the end of June after all other details have been tied up to French satisfaction.

The greatest achievement at The Hague session was to obtain agreement between France and West Germany on the vital question of setting up a co-operative machinery to ward off future financial crises within the Market. Shaken by repeated currency crises over the last two years the French and their partners agreed that it was necessary to create a European reserve fund into which member-countries would transfer a portion of their national reserves for joint administration. Members will have the right to borrow from the common reserves to tide them over balance of payment difficulties. They undertook also to work out common economic targets to reduce the variations of performance that have been the root cause of the currency difficulties and differences.

These ideas are not new. They are merely a slight variation of what has become known as the Barre scheme, after the French Common Market Commission official who worked it out in February, an idea which the Market's finance ministers have looked on with favour. What is new is that the French and the West Germans, the people who really run the Market, have now committed themselves at the highest level to take up the plan and work it out.

The scheme is another Market success for the French since the West Germans whose powerful economy lays them open to the responsibility within the Market of paying bills for other countries — more often than

not, France — have never been enthusiastic over the idea. Herr Brandt's statement, that his government is willing "to proceed along the road to economic and monetary union, step by step and with a realistic approach within the Market" suits French and others' policy admirably.

By contrast to West German forthcomingness the French tardy, almost forced, acceptance of fixing a firm final date to begin negotiations afresh with the British was niggardly in the extreme. Even so, as a face saving gesture to Paris, the final communique made no mention specially of this final date and the commitment to start negotiations to expand the 12-year old Market had to be detailed in separate oral statements by the Market's present members. Even so, also, the French managed to express the matter negatively — they "would not seek to hold up preparatory work by the Common Market experts to fix a joint negotiating position." The fairly plain inference is that they will not go out of their way to help very much.

Basis for Compromise

The basis for the compromises was formal agreement by France's partners to perpetuate the principle of the expensive Market farm finance system, which costs some 3,000 million dollars a year, and which annually provides hundreds of millions of dollars in Common Market subsidies to French farmers.

There is little wonder that the Dutch Foreign Minister, Dr Luns, the principal advocate within the Market of British entry, expressed himself as only "rather happy". In return for a lukewarm promise not to obstruct preparations for beginning to talk with the Britsh again the French have gained a perpetuation of heavy subsidies for their agriculture and a German acceptance of major responsibility for financing Market machinery for warding off currency crises among Market members. One would say that President Pompidou, with his banker's skill, had struck a fairly good bargain.

Whether the British, increasingly lukewarm to the idea of joining, will now push ahead wholeheartedly to join the Market remains questionable. With a general election coming, the whole question for the British may be made an electoral matter and there are suspicions that Mr Wilson may see victory once again for Labour in adopting an attitude rejecting Europe and in playing up to the general British mood of being "browned off" with the whole project.

The continental countries, particularly the Austrians, who seek association with the Market so that they can trade on better terms with their major commercial partners, the Germans, are, on the other hand, lively and enthusiastic at the renewed prospect of a wider Market. Pressure within EFTA on Britain by the Austrians and some of the Scandinavians to go ahead and to be as reasonable as possible with the French in negotiations is likely to be considerable.

The French unquestionably remain chary of having Britain in the Market. President Pompidou warned his colleagues that the cost of British entry might be the "Community's weakness and fragmentation." The French are anxious, particularly, to be free of the influence not only of Britain but of the United States and the Soviet Union also. The French believe that Britain's admission would increase American influence in European affairs and they would be prepared to slow down and restrict the European Community rather than have that happen.

For once, at The Hague it was West Germans and not the French who appeared most eager to bring Europe, east and west, together and, at the same time, to help the Market to hold its own in face of the USA and the USSR by improving and developing economically and technically. It is the French and not the Germans now who are the "little Europeans", gaining as much as they can from the Market and seeking currency security partly from the prosperity of their partners. Herr Brandt almost openly showed his disillusion when he remarked after the conference "I could have thought of a more courageous step forward."

Within the Market, following The Hague session there is little optimism over the British prospects, even if the UK presses as strongly for membership as some hope it will. The discussions, in officials' views in Brussels, will probably take two years and are likely to end in failure because Britain will not be able to accept the conditions set by the Common Market countries.

What is considered in Brussels as more likely to happen is that Britain, Denmark, Norway and Ireland will be able to achieve closer economic ties with the Common Market without actully joining it. Within the Market, despite The Hague's success, French demands for the security of their agriculture are thought likely to lead to more sharp difficulties. Social unrest in Italy and farmers' unrest in France form an unpromising background for more bolstering of the French economy and unlimited farm surpluses threaten to make agricultural support steadily more costly. Those who have to foot the bill are unlikely to like doing so when the footing becomes ever more expensive.

The moving finger writes

THE turn of the year this time is much more than the turn of the calendar. Whether we do really ring out the old and ring in the new or not, 1970 cannot be what 1969 was. Far too much has changed in the contours and contents of our public affairs for government or politics to continue to be conducted as business as usual. Political differences during the latter part of the year that has gone have brought the Indian people face to face with the realities and raw nature of leadership in the country in a manner which was never the case in any year since Independence.

It is true that the nation had been confronted with many grave crises, such as the Chinese aggression or the war with Pakistan in the period before 1969. But those shocks, because they were partly external in origin and character, were not as shattering of our inner being as the upheaval in the domain of our domestic politics to which we had been witness in the closing months of the departed year. The confiding faith of simple folk in the idealism of the nation's leaders has been lost beyond recall. Their idols have been shown to be not merely images with feet of clay, but monsters of sculptured deceit. The sad fact has been splashed on the wall for all to see that, if there is at all any public spirit or personal integrity to be found among the people, it cannot be in the high places from where the country is sought to be governed. The old year saw reputations in public life crumbling to the dust, leaving it to the new year to clear the debris if it could.

Among the fallen idols and the broken images none is in a sadder state of disarray than the ruins of the Prime Minister's personal reputation or public character. When Mr Nijalingappa declared in Ahmedabad that Mrs Indira Gandhi had become unfit to function as Prime Minister, he was making more than a political debating point. Her conduct at and since the Bangalore session of the All-India Congress Committee has been a sequence of unprincipled intrigues and unscrupulous manoeuvres. In the event, she has not even been able to achieve justification in terms of the Machiavellian dictum that the end justifies the means. Had Mrs Gandhi been able to carry the bulk of the Congress organisation with her and thus preserve the operational unity and effectiveness of a political institution or force of immense relevance to the stability of government, much might have been forgiven her. She, however, has failed here and not all the lavish circuses of the Bombay convention of her party can contradict or confuse this clear denouement.

Mrs Gandhi, no doubt, was well within her rights to gamble on her stars and risk her political position in a bid for total power within government or party, but she betrayed the trust which untutored people in their millions had placed in the Nehru name when she chose to make the right of the country to orderly progress part of the stakes of the game of chance she was playing. India has not been fortunate in its history and through the chronicles of the centuries the genius of its people had to struggle hard against the malice or meanness of little men and women who chanced to strut on its political stage. This tradition, presumably, continues and the only thought of good cheer that we may have for the new year is that, even as India and its people have survived from the past, they will succeed in surviving into the future.

* *

The winter session of Parliament ended as it began — on a note of sound and fury. For all their ersatz excitement, the debate on the Rabat fiasco and the discussion on Mr Jagjivan Ram's tax situation were essentially exercises in shadow-boxing. Neither the government and the groups in Parliament which supported it, nor those groups on the opposition benches which were joining issue with them, were interested in discussing the matter on merits on either occasion. As I watched the proceedings in the Lok Sabha during the evening hours of December 24, when the attempt was made to arraign Mr Jagjivan Ram for his fiscal failures, I found the sound from the grinding of political axes even more deafening than the noisy exchanges across the floor of the House. The Prime Minister, therefore, had a point when she complained that the debate was politically motivated. This it undoubtedly was — only the Prime Minister should be the last person to complain of politically-motivated actions or reactions of politicians.

In my view, the man who came out least damaged from an episode which did so much discredit to so many was, surprisingly enough, Mr Jagjivan Ram. Once again, he gave an impressive display of his shrewdness and flexibility as a parliamentarian by his disarming admission that he had certainly been in the wrong in the matter of his tax returns. After this confession it became perhaps a little less difficult for friendly or kindly folk to accept, more or less at its face value, his plea that there had been no wilful attempt or deliberate intention on his part to evade payment of taxes. A certain amount of sympathy for Mr Jagjivan Ram would seem to be in order all the more because of the maladroit attempt the Prime Minister made some time ago to explain away his default by attributing it to forgetfulness on his part.

Mr Jagjivan Ram was not well-served either even during the debate since Mr P. C. Sethi, the Minister of State in the Ministry of Finance, who presented the government's brief, adopted a strategy which could only arouse contempt for the Treasury Benches. He not only indulged in sickening insinuations all round, but also attempted clumsily to bury the nigger in the woodpile by stating casually that as many as 350 members of Parliament had erred in one way or the other in the matter of the filing of tax returns. Mr Sethi was trying to imply that where so many were guilty of lapses, it would be uncharitable to seek to single out individuals for condemnation in respect of so widely shared a sin. The logic or ethics of Mr Sethi's argument apart, it should have been obvious to him that it was not a wise thing to hold a mirror to Caliban. Mr Sethi's remark set loose such a storm of protest and rage in the House that, had a vote been taken at the moment, the MPs might have voted to send the whole pack of ministers out bag and baggage. Mr Sethi's indiscretion, however, was not without its virtue. It brought out forcefully the point that so much of our tax law had become, like prohibition, a law which was honoured more in the breach than in the observance for the simple reason that its demands and rigours were placing an intolerable strain on the conscience, character or even convictions of ordinary men and women.

* *

Mrs Tarkeshwari Sinha, orating at Ahmedabad, was, it seems, the biggest thing to hit Gujarat since Mahmood of Ghazni. I am no uncritical admirer of Mrs Sinha's intellectual accomplishments, but I would readily grant her effectiveness on the contemporary political platform. For close reasoning or consistent argument, she neither has the mind nor the temperament, while the wilder excesses of her undisciplined use of the English language is apt to give one a pain in the neck whenever there is serious discussion of public issues. There is no denying, however, her great value as a picturesque propagandist or a passionate controversialist. She uses the verbal coins of demagogy with a lavish abandon which succeeds in suggesting that her resources in this area are virtually inexhaustible. At her best, Mrs Sinha is in the authentic tradition of orators such as Mr S. Satyamurthy or Vir Narriman of pre-Independence memory. It must be added, however, that she is often not at her best. Her day in Ahmedabad, however, was apparently one of her lucky days and everything she said then and even more the way she said it seemed just what her audience had come there for. Mrs Sinha, like other members of Parliament, may have only one vote in the Lok Sabha, but she must be worth a whole battalion for the Organisation Congress as it stands up to give battle to the other Congress, whether within Parliament or on the public platform.

V. B.

Trade Winds

CEMENT EXPANSION PLAN

Mr G. D. Birla, Chairman, Mysore Cements Limited, stated recently that the company's capacity has been planned to be expanded from its present 400,000 tons to 525,000 tons. He was addressing the annual general meeting. The company, he added, revealed a promise of improvement and in the course of time it would be possible to plough back funds for additional production. Mr Birla pointed out that the policy of the company has been to progressively increase the shareholders' dividends. He, therefore, assured the shareholders that the directors would work hard to protect their interests. He indicated that another plant of this company would be set up in the north where there was an acute scarcity of cement. He added that market for cement in the rural areas has got to be explored and the flow of funds to farmers will initiate building activity in the villages. Mysore Cements had drawn up a low cost housing scheme which had proved a great success.

PILSNER BREWERIES

The erection of the brewery plant of Pilsner Breweries India Ltd has been completed under the supervision of a team of six supervisors from Czechoslovakia. Test runs of individual equipment and synchronisation of different sections of the brewery carried out so far have been satisfactory. The plant is ready for starting production, awaiting the issue of the Indian entry visa by the union government for the arrival of the Czechoslovak Master Brewer and the import licence for yeast culture and some brewing chemicals. The other important brewing raw materials such as malt have already been received.

NARANG BREWERIES

The Narang Breweries went into production at Nawabganj, UP, on December 22, 1969. The brewery and maltery was inaugurated by Dr Dev Raj Narang, Chairman of the Narang group of companies. Recently a plant was added to the distillery of the company which raised the total daily capacity to approximately 10,000 gallons. In 1967, a licence was granted to establish the Narang Breweries at Nawabganj. The brewery has an initial capacity to produce 30,000 bottles of beer per day. Within about two years the production capacity is likely to be increased to 70,000 bottles per day. Mr John D. Cluett, Master Brewer of M/s. Alfred Jorgenson Laboratory for Fermentation, Copenhagen, Denmark, is in this country to supervise the production and standardise the procedures of the Narang Breweries. This will ensure that the product will be equal to international standards.

COMPANY LAW BOARD

The union government has delegated its powers under Section 108(ID) of the Companies Act, 1956, which were exercised by the Company Law Board, to the four regional directors of the Company Law Board stationed at Bombay, Calcutta, Kanpur and Madras, subject to the control of the Company Law Board. In respect of the matter relating to applications for extension of time under section 108(ID) of the Act, companies and the public have to address the appropriate regional director instead of the Company Law Board.

CEMENT CONTROL CONTINUES

The union Minister for Industrial Development, Mr Fakhruddin Ali Ahmed, stated recently that the decision of the government to discontinue the existing arrangements and remove all controls over price and distribution of cement with effect from January, 1970, is being reconsidered. Several representations were received by the government from a large number of producers, members of Parliament, state governments and chambers of commerce urging the government to reconsider its decision and continue the existing arrangements for the sale of cement at a uniform f.o.r. destination price and freight equalisation arrangements. The various grounds urged in these representations, in particular that there may be price rises after decontrol, specially in the deficit areas, warranted re-examination of the government's decision. Under the circumstances, till the government has completed its examination of the points urged in the representations, the existing arrangements for the sale of cement on f.o.r. destination price and freight pooling arrangements etc. will for the present be continued beyond December 31, 1969.

VEGETABLE OIL PRICES

Due to an increase in groundnut oil prices during the past few weeks, particularly in the western zone, it has become necessary to allow an increase in vanaspati prices in that zone to the extent of 25 paise per kg. Prices in the north, south and east zones will continue unchanged. The revised prices, which take effect from December 25, 1969, have been notified by government under the Vegetable Oil Products Control Order 1947, separate prices being fixed for sale by producers, wholesalers and retailers. The revised maximum retail prices of vanaspati in the different pack-sizes, and when sold loose, exclusive of sales tax and other local taxes, in the west zone will be as under :—

	Rs.
16.5 kg tin	76.48
4.0 kg tin	20.25
2.0 kg tin	10.58
Loose per kg	4.64

INDUSTRY IN UTTAR PRADESH

Mr B. R. Bhagat, union Minister for Foreign Trade, who inaugurated the annual session of Western UP Chamber of Commerce held at Meerut recently appreciated the progress made in west UP and improvement recorded in the standard of living of people in this area due to industrialisation. He hoped that further efforts would be made to increase exports of light engineering, light chemicals and minerals.

Mr K. N. Modi in his presidential address stated that many textile mills in the area suffered losses and some of them were forced to close down. In the state of UP, therefore, this industry is dying out. The prices of coarse and medium cloth fixed in 1965 were not relevant today, he added. He therefore, exhorted that the price control on textiles be removed if the government wants to save this industry. The price control, he added, is not justified because the supply of cloth is in excess of demand. Mr Modi said that the State of Uttar Pradesh is lacking in respect of power-


ever seen sweetness this simple?
the sweet young thing,
covered up in folds of loveliness..
in the aura of Century's
tastefully elegant cotton saree.
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looms which are just 400 in number engaged in man-made fibres and art silk. He suggested that the government should sanction at least 5,000 powerlooms for man-made fibre and art silk industry in this state. Mr Modi also indicated that iron could be exported instead of iron scrap if the government could remove restrictions on re-rolling of scrap into iron. He further added that the National Instruments Factory should manufacture only those instruments which are not being produced by cottage and small-scale industry in Roorkee.

FOREIGN TRADE IN OCTOBER

The value of foreign trade of this country, by sea, air and land on private and government account during October, 1969, was as follows:

	(Rs crores)
Exports (including re-exports)	118.13
Imports	129.01

The figure for imports is, however, incomplete due to partial coverage of imports on the government account, particularly of foodgrains.

INDO-CANADIAN BUSINESS GROUP

Under the auspices of the Indian International Trade Centre, an Indo-Canadian Business Group is being set up in Bombay. The basic objective of the group is to promote Indo-Canadian trade and joint ventures. The proposed display of the Indian products at Ottawa in May 1970 will be a contributory factor to this end. Among the activities of the group, it will try to locate the areas of development for the purpose of exports and joint ventures. The group will hold discussions with the Canadian authorities with a view to seeking their active co-operation to fulfil its objectives. The group will channel enquiries from Canada to the reputed Indian concerns. The group will also hold regular meetings and will bring out a monthly newsletter for disseminating useful economic information.

INDO-SOVIET TRADE

A 20 per cent increase in India's exports to the Soviet Union is expected under the trade protocol for next year which envisages a total trade of Rs 300 crores, both ways. Indian exports will total Rs 200 crores or more compared with actual exports totalling Rs. 180 crores and the provision of Rs 169 crores in the current year's trade protocol. In the current year, the USSR did not supply any non-ferrous metals, but at a press conference after the signing of the protocol, the leader of the Soviet team, Mr N. P. Shirayaev, indicated that the USSR might be able to supply zinc from 1971. In the first round of negotiations held in Moscow, the USSR had agreed to supply non-ferrous metals during the long-term trade plan.

IMPORT THROUGH S.T.C.

The union government has decided to canalise the import of the following additional items through the State Trading Corporation: (*i*) sulphur (*ii*) titanium dioxide (*iii*) ammonium nitrate—technical grade (*iv*) cresylic acid and (*v*) hops. An Import Trade Control public notice in this regard has been issued on December 24, 1969.

INDO-CZECH TRADE

Czechoslovakia foresees substantial expansion in Indo-Czech trade in the coming years. It expects that the yearly turnover will reach about Rs 100 crores by the end of 1974 from last year's level of Rs 65 crores. Currently, a number of specialist teams comprising representatives of Czech business enterprises are already in this country discussing details with Indian parties about various articles of import and export. The total turnover has increased from Rs 24 crores in 1960 to Rs 65 crores last year. Exports from this country were valued at Rs 8.7 crores in 1960. Last year they totalled Rs 31 crores. An increase of 10 per cent is expected this year. The Czechoslovak Economic and Commercial Counsellor in India, Mr V. Kirsbaum, stated recently that his country was in a position to meet to a greater extent demand for sophisticated machine tools, extent tractors, textile machinery and printing machinery required by the country.

INDO-JAPAN TRADE

The joint meeting of the business co-operation committees of India and Japan was concluded recently on a note of optimism as the three-day deliberations brought a better understanding of the problems of both sides and gave promise of better prospects of trade between the two. The main emphasis had been on mutual co-operation in a number of fields, as it was amply borne out that there were vast opportunities for the two countries to work together as partners and not as competitors in trade. The Japanese delegation was given the assurance by the union government that bank take-over was by no means the beginning of an era of nationalisation in the country. The legitimate needs of private industry would be fully met.

TRADE WITH HUNGARY

Talks were held in New Delhi recently between official delegations of this country and Hungary for the finalisation of the trade protocol for 1970 The two delegations were led by Mr N. P. Jain, Director, Ministry of Foreign Trade, and Mr Pammer, Trade Representative of Hungary in this country.

TRADE WITH POLAND

Poland and this country recently signed a trade protocol for 1970 which envisages a trade turnover of Rs 80 crores. The major items of exports from this country will include railway wagons, cotton textiles, cotton yarn, textile machinery, wire ropes, castings and forgings, automobile ancillaries, railway maintenance equipment and hand and small tools. Poland has offered to increase her purchase of Indian iron ore and has expressed interest in entering into a long-term arrangement. Among other items, Poland will supply to this country sulphur, urea, tractors, shipping equipment, zinc and newsprint. It has been agreed that expert studies should be made by both sides to identity possibilities of industrial co-operation between the two countries, particularly in such fields as mining, ships, shipping equipment, textile machinery and railway rolling stock.

INVESTMENT IN MAURITIUS

This country will set up factories for the manufacture of cement and hard board and flour mills in Mauritius. It has already agreed, in principle, to help the island government in the construction of a fertiliser factory. The visiting Mauritian Prime Minister, Mr Ramgoolam, is also understood to have indicated to the union government that his country would welcome the initiative of Indian industrialists and entrepreneurs in collaborating with Mauritians in the development of the small-scale sector and in setting up industrial estates.

ENGINEERING EXPORTS

The engineering industry is making a significant contribution to the country's exports by opening up completely new export lines and, also, by providing other

export industries with their requirements of plant, machinery, equipment and materials. As against a contribution of Rs 3.4 crores in 1956-57, the industry's export performance improved in 1968-69 to the level of Rs 84.97 crores and the target for 1969-70 has been set at Rs 110 crores. In exporting the engineering industry has been experiencing a variety of difficulties and problems such as the non-availability of raw materials, lack of adequate market intelligence, unsatisfactory industrial image, inadequate domestic market to sustain the export effort, discriminately high shipping freight and inadequate sailing from ports. The most pressing current problem facing the industry is the shortage of steel. The Indian Engineering Association had a series of discussions with the government on this problem and urgent efforts were being made to import steel for the industry's requirements.

ILFORD TAKE-OVER BY CIBA

CIBA United Kingdom Ltd and Imperial Chemical Industries Limited have announced that CIBA is to acquire complete control of Ilford Limited, the British photographics company. The ICI is selling its shares to CIBA at 7sh.

Company Affairs

SCINDIA STEAM

MR Krishnaraj M.D. Thackersey, Chairman, the Scindia Steam Navigation Company Ltd, in a statement issued on the occasion of the annual general meeting made a reference to the Industrial Licensing Policy Enquiry Committee, which has considered the company to be a large industrial house on the ground of its paid-up capital and assets exceeding Rs 35 crores. He indicated that the company is not a part of any industrial or business group nor is it a group of industries by itself. He, therefore, pointed out that it would have been appropriate and logical from the point of view of the assignment given to the committee to exclude it from any reference.

Mr Thackersey pointed out that the earnings of the company which has increased by more than Rs 5.32 crores had not improved its financial position because there had been an increase in operating costs. In order to improve the financial performance of the company in the face of increasing costs, the board of directors had decided to limit the liner activities to its present tonnage and concentrate largely on the development of bulk carrier fleet. With this end in view, the company has purchased and commissioned a bulk carrier 'Narottam Morarjee' of 53,340 DWT and the company hopes to purchase another bulk carrier soon. It had also ordered two vessels from Rheinstahl yard, the price of which is likely to go up by 8.5 per cent in rupees because of a recent revaluation of West German currency. Mr Thackersey added out that the government should release at least 20 per cent of the cost of the ships in foreign exchange which is to be paid to the shipowners. This, he added, is necessary because increased shipping capacity is going to save considerable foreign exchange for the country. About the subsidiary companies, the chairman indicated that out of the eight subsidiaries only six are working, while Jalnath Steamships and BSN company are not operating.

CONSOLIDATED COFFEE

Mr M. A. Sreenivasan, Chairman, Consolidated Coffee Ltd, stated at the recent annual general meeting that during the previous decade the company had more than doubled its production of coffee besides producing other exportable commodities, such as pepper and cardamom. During this period, he stated, taxation had increased nearly eight times because the company did not have the benefit of depreciation and development rebate. The company has made representations along with Planters' associations and received assurances that the taxes would be rationalised. He hoped that the committee appointed by the government to re-examine and recommend rationalisation of the existing tax structure, under the chairmanship of Mr S. Bhoothalingam, would remedy the ills and provide some relief to the industry.

RALLIS INDIA

Rallis India Ltd proposes to issue 7.75 per cent 1982-85 debentures for one crore rupees. The proceeds of the proposed issue will be utilised for financing the company's expansion plan and for repaying a medium-term loan of Rs 20 lakhs taken from the State Bank of Bikaner and Jaipur. The company has plans to increase its pharmaceutical manufacturing activities and set up a plant in Madras at an estimated cost of Rs 25 lakhs of which a sum of Rs 5 lakhs has already been spent. It is also proposed to install additional plant and equipment at the Bombay unit for raising the manufacturing capacity of table and pedestal fans. The present capacity of the Bombay unit is about 100,000 fans and when the new unit is commissioned, the turnover is expected to be doubled by 1972-73. The total capital cost on this unit is estimated at Rs 25 lakhs of which a sum of Rs 9 lakhs has already been spent.

PEIRCE LESLIE

Peirce Leslie India Ltd proposes to issue fresh capital of 196,000 equity shares of Rs 10 each at par and 15,000 (9.3 per cent) cumulative redeemable preference shares of Rs 100 each at par (Rs 15 lakhs). Of the equity issue, 19,600 shares have been reserved for subscription by the directors and employees, who are Indian nationals. Shares not taken up by the directors and and employees from the reserved quota will be available for allotment on applications from the public. The company has an authorised capital of one crores rupees (Rs 40 lakhs in equity shares of Rs 10 each, Rs 15 lakhs in preference shares of Rs 100 each and Rs 45 lakhs in unclassified shares of Rs 10 lakhs). The issued, subscribed and paid-up capital is Rs 20.40 lakhs in equity shares, of which shares worth Rs 10.20 lakhs are held by Peirce Leslie and Co. Ltd, London. After the proposed public issue, the company's equity and preference shares will be listed on the Madras Stock Exchange.

HINDUSTAN LEVER

Mr R. W. Archer, Vice-chairman of Hindustan Lever Ltd, indicated recently that the company's sales turnover will go beyond the Rs 100 crore-mark in the current year. During the first half of 1969 the company has achieved a higher turnover of Rs 54.07 crores compared to Rs 46.72 crores in the same period of 1968. Mr Archer said that it will be the board's wish to maintain the equity dividend on increased capital following the proposed bonus issue in the ratio one for four shares held, but he is not able to assure this at the present stage. The bonus shares, for which shareholders accorded their sanction recentlly, are entitled to final dividend for the current year.

PREMIER AUTO

The Premier Automobiles Ltd proposes to take suitable measures to increase its profitability. The chairman of the company pointed out recently that steps are being taken for the regular supply of diesel engines. The company has also got a plan to take up the manufacture of such engines. Referring to diversification, the chairman indicated that the airconditioning department has fared well. Further efforts at improvement are under the active consideration of the management. Measures for sales promotion have already been taken with six regional offices in different centres. The sanctioned capacity for cars is 7,200 and for commercial vehicles 7,500 per year.

C.A.F.I.

Mr Alan William Hamer, Chairman, Chemicals and Fibres of India Limited, has told the shareholders at the annual general meeting in Bombay that the company's working during the first months of the current year is satisfactory, being more

or less the same as in the corresponding period of last year. The company's plant at Thana attained a production of 5,475 tonnes during the year ended September, 1969, which is a creditable record considering the only addition of the baling machine fabricated completely in India.

In regard to the proposed expansion of production capacity to 6,100 tonnes per annum for which the company has been issued a letter of intent, the company expects to import only about 15 per cent by way of additional equipment against 40 per cent for the present plant. As soon as the capital goods licence is received the company will go ahead with the project and hopes to commission the plant early in 1971.

CAPITAL AND BONUS ISSUES

Consent has been accorded to 18 companies to raise capital amounting to over Rs 14.28 crores. Twelve of them are to issue bonus shares totalling over Rs 6.62 crores and the amount of bonus shares ranges between Rs 2,00,000 and Rs 2,88,90,780. The consents are valid for 12 months. The following are the details :

Hindustan Lever Ltd, Bombay, has been accorded consent to capitalise Rs 2,88,90,780 out of its general reserves and share premium and issue fully paid equity shares of Rs 10 each as bonus shares in the ratio of one bonus share for every four equity shares held.

Karamchand Premchand Private Ltd, Ahmedabad, has been accorded consent to capitalise Rs. 1,44,00,000 out of its general reserves and issue fully paid equity shares of Rs 1000 each as bonus shares in the ratio of one bonus share for every equity share held.

Geoffrey Manners & Company Ltd, Bombay, has been accorded consent to capitalise Rs 8,00,000 out of its general reserves and issue fully paid equity shares of Rs 10 each as bonus shares in the ratio of one bonus share for every eleven equity shares held

Tractors (India) Ltd, Calcutta, has been accorded consent to capitalise Rs 23,33,510 out of its general reserves and issue fully paid equity shares of Rs 10 each as bonus shares in the ratio of two bonus shares for every five equity shares held.

Usha Sales Private Ltd, New Delhi, has been accorded consent to capitalise Rs 3,00,000 out of its general reserves and issue fully paid equity shares of Rs 10 each as bonus shares in the ratio of one bonus share for every five equity shares held.

Madras State Industrial Development Corporation Ltd, Madras, having a paid-up capital of Rs 436.74 lakhs, has been accorded consent to issue Rs 250 lakhs divided into 25,000 debentures of Rs 1,000 each carrying interest at 6 per cent per annum to be issued to the public for cash at an issue price of 98 per cent. The period of debentures will be 12 years and will be issued to registered holders only. The proceeds will be utilized for financing the capital expenditure needs of the existing projects of the corporation.

Escorts Ltd, Delhi, has been accorded consent to capitalise Rs 58,06,080 out of its general reserves and issue fully paid equity shares of Rs 10 each as bonus shares in the ratio of one bonus share for every four equity shares held.

Aryodaya Spinning & Weaving Company Ltd, Ahmedabad, has been accorded consent to capitalise Rs 3,60,000 out of its general reserves and issue fully paid equity shares of Rs 200 each as bonus shares in the ratio of one bonus share for every eight equity shares held.

Rainbow Ink & Varnish Manufacturing Company Private Ltd., Bombay, has been accorded consent to capitalise Rs 2,96,800 out of its general reserves and issue fully paid equity shares of Rs 100 each as bonus shares in the ratio of two bonus shares for every five equity shares held.

Rege Cinefilms Limited, Bombay, has been accorded consent to capitalise Rs 2,00,000 out of its general reserves and issue fully paid equity shares of Rs 100 each as bonus shares in the ratio of two bonus shares for every five equity shares held.

The New India Assurance Company Ltd, Bombay, has been accorded consent to capitalise Rs 68,36,220 out of its general reserves and issue fully paid equity shares of Rs 15 each as bonus shares in the ratio of three bonus shares for every ten equity shares held.

Hoechst Pharmaceuticals Ltd, Bombay, has been accorded consent to capitalise Rs 57,72,200 out of its general reserves and issue fully paid equity shares of Rs 100 each as bonus shares in the ratio of 49 (fortynine) bonus shares for every 100 (hundred) equity shares held.

Zandu Pharmaceutical Works Ltd, Bombay, has been accorded consent to capitalise Rs 2,50,000 out of its share premium account and issue fully paid equity shares of Rs 100 each as bonus shares in the ratio of one bonus share for every six equity shares held.

Ratnakar Shipping Company Ltd, Calcutta, has been granted consent to issue further equity shares of Rs. 10 each of a value of Rs. 50.6 lakhs for cash at par. The proceeds are to be utilized in connection with the finance arrangements for the purchase of a tanker 'Ratna Jayshree'.

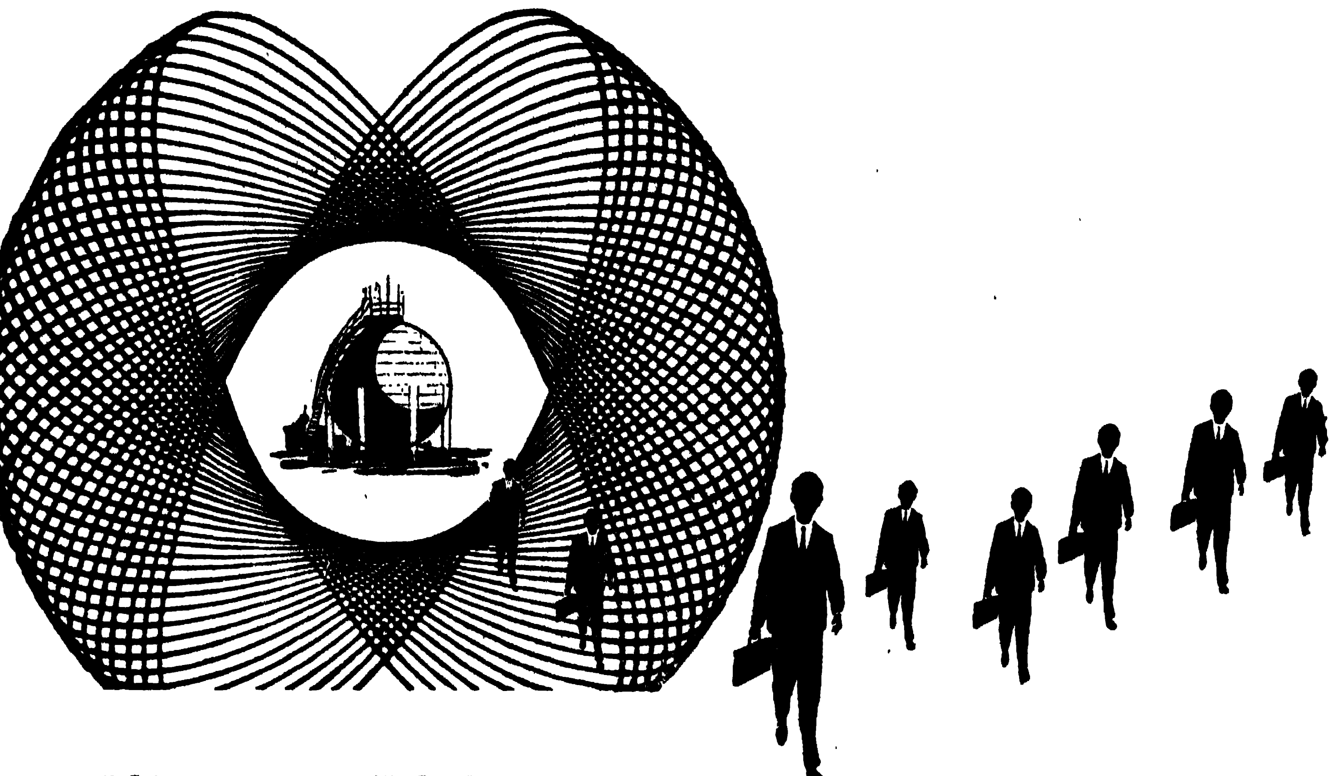
Sirpur Paper Mills Ltd, Hyderabad, has communicated to government of its proposal to issue capital of Rs 350 lakhs under clause 5 of the Capital Issues (Exemption) Order, 1969 divided into debentures of the value of Rs 150 lakhs bearing interest at the rate of 7.75 per cent per annum subject to deduction of taxes and interest-free debentures of the value of Rs 200 lakhs. The debentures would be redeemed after a period of 10 years from the date of issue. The proceeds of debentures of the value of Rs 150 lakhs are to be utilized partly for the repayment of loan and partly to meet requirement of working capital. The interest-free debentures of the value of Rs 200 lakhs are to be pledged with the bank as security against cash credit facilities.

Alembic Chemical Works Company Ltd, Baroda, has communicated to government its proposal to issue capital of Rs 57,48,700 under clause 5 of the Capital Issues (Exemption) Order, 1969 divided into 57,487 equity shares of Rs 100 each to be issued at par to the existing equity shareholders on rights basis. The proceeds are to be utilised to strengthen the financial position of the company.

Rydak Tea Syndicate Ltd, Calcutta, has been granted consent to issue equity shares of Rs 10 each of a value of Rs 45 lakhs credited as fully paid to the shareholders of Messrs Baradighi Tea Company Ltd, Central Cachar Tea Company Ltd and Messrs Desai & Paributtia Tea Company Ltd in the manner approved by Calcutta High Court on the amalgamation of the latter three companies with Messrs Rydak Tea Syndicate Ltd, Calcutta.

Premier Vegetable Prdoducts Ltd, Jaipur, has been accorded consent to issue capital of Rs 13,52,100 in equity shares of Rs 100 each for cash at par.

FCI produces "JETS" for fertilizer industry



F C I is turning out "JETS", *Junior Executive Trainees*, by hundreds. Over 300 of them will soon *"take off"* for various units after intensive training. They will man F C I establishments with speed and accuracy but without the usual sonic boom.

Comprehensive Programme : Fertilizer Corporation of India Limited provides comprehensive training programme. It covers technical executive cadres, technicians, craftsmen, and even training in administration and management. Training centres are located at all F C I Units—Sindri, Nangal, Trombay, Namrup and Gorakhpur At new units like Durgapur and Barauni, training centres are the first to hum with activity.

Earn-while-you-learn : F C I trainees are paid stipends that enable them to earn while they learn. There are some 1200 youngmen under training in F C I. Jobs with prospects are guaranteed after successful completion of training.

FCI **building brain power for the fertilizer industry**

FERTILIZER CORPORATION OF INDIA LIMITED NEW DELHI

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COMPANY MEETING

THE SCINDIA STEAM NAVIGATION CO. LTD.

Speech of the Chairman Shri Krishnaraj M.D. Thackersey

Following is the summary of the Statement of Shri Krishnaraj M.D. Thackersey, Chairman, The Scindia Steam Navigation Company Limited, made at the 50th Annual General Meeting of the Shareholders on Wednesday, the 17th December 1969 at Patkar Hall, Bombay-1.

During the year the country lost a great patriot, humanist and scholar, Dr. Zakir Husain, our beloved President. He was a gentleman in the true sense of the word and we shall not forget his august presence for a long time to come.

I am sorry to say that Shri Dharamsey M. Khatau has resigned as Chairman of the Company. He has been the Chairman of your Company from January 1950 and under his leadership the Company has made considerable progress. I am, however, very glad that he still continues to be a Director making available to us his valuable advice and guidance. As Chairman, Shri Khatau had keen interest of the Company at heart and he spared no pains to settle various problems amicably. On your behalf and my behalf I thank Shri Khatau for the devoted services he rendered to the Company.

I must draw your attention to an indirect reference of your Company made in the report of the Industrial Licensing Policy Enquiry Committee popularly known as Dutt Committee, set up by the Government. It seems, only by virtue of its having been considered a large industrial house by some previous studies on the ground of its paid-up capital and assets exceeding Rs. 35 crores. It is not a part of any industrial or business group nor it has a group of industries of its own. It does not also come under the industrial licensing system. It would have been, therefore, more appropriate and logical from the point of view of the assignment given to the Committee, if it had excluded any reference, however nominal, of the Company in its report.

Having completed 50 years in March last, your Company is celebrating the Golden Jubilee this year. Your Directors had thought it fit to declare interim dividend to be paid along with final dividend which has benefited the shareholders by way of exemption from tax upto 71.5% of the entire dividend.

Although the earnings of our Company have increased by more than Rs 5.32 crores, the net result is not commensurate with the earnings because of the increase in the operating costs of the steamers specially stevedoring and wages of ships' officers and crew. During the year the shipping industry concluded an agreement with the National Union of Seafarers of India whereby the Industry had to increase the wages by about 15%. Similarly, the industry is presently negotiating with the Maritime Union of India representing ships' officers and although no final agreement is reached, it will result in increased cost.

There has been a steady increase in the stevedoring costs in foreign and Indian ports and also the Dock Labour Board levies at various ports in India. The increase in stevedoring costs in U.S.A. after the settlement of the strike has been steep.

As apprehended, the U.S.A. strike from December 1968 to March this year, has resulted in delays to our ships and disrupted the traffic movement from and to U.S.A. In order to avoid ships being held up for a longer time, we took action in transhipping cargoes from some of the ships for the smaller ports at major ports in U.S.A. This has increased our expenses to some extent.

During the year under review although delays at Indian ports were reduced, at some of the foreign ports the delays have increased compared to last year, which affected our net earnings for the year.

In order to increase their earnings to offset the increasing cost year after year, the Board has decided for the present to limit its liner activities to its present tonnage and concentrate the Company's activities in a large way to develop bulk carrier fleet of its own. With this end in view, we have purchased and commissioned one bulk carrier, m.v. "Narottam Morarjee" of 53,340 D.W.T. and we are now trying to purchase another bulk carrier.

We have ordered out two vessels from Rheinstahl Yard, Emden (W. Germany). Due to the recent revaluation of the West German currency, the price of these vessels will go up by about 8 ½% in rupees.

In view of the importance of shipping, from the foreign exchange earnings angle and the contribution the shipping industry is making to the balance of payment position of the Company the Government should release at least 20% of the cost of the ship in foreign exchange as down payment to the shipowners and should also take cognizance of the prevailing higher interest rates in foreign exchange market and should allow shipping companies to borrow at interest rates commensurate with the above trend.

As you are aware, the Company has set up several subsidiary companies to achieve various ends. The Company is also winding up those subsidiaries which have ceased to be useful to it. Thus out of eight subsidiaries only six are still active, Jalanath Steamships Ltd., has been taken into voluntary liquidation, while the B.S.N. Co. (1953) Ltd. is in a state of suspended animation.

Commitments made by the Government

in respect of payment of subsidy to B.S.N. Co. (1953) Ltd. has not been fulfilled with the result we had to take recourse to legal action. The case has not yet come up for hearing. Subsequent to the closure of the service by us the Government has increased the passenger fares twice.

May I take this opportunity to thank Shri K. Raghuramaiah, Minister of Transport and Shipping, the Secretary and the Joint Secretary of the Ministry, and the Director General of Shipping for their encouragement and sympathetic attitude towards Indian shipping. I also thank the Chief Controller of Chartering, other officials of the Transport and Finance Ministries, the Directorate General of Shipping, Shipping Co-ordination Committee and the Chartering Committee for their active support and assistance.

To all our patrons, shippers and consignees both in India and abroad, I extend our sincere thanks for their valuable support. I would also like to pay a tribute on your behalf and on my own to the Management and to employees both ashore and afloat and to the Agents of the Company at various ports for their devotion to duty. With the active support of the shippers and the staff, your Company has been able to complete fifty memorable years of service to the nation.

Note: **This does not purport to be a record of the proceedings of the Annual General Meeting.**

approves the payment made and to be made of commission 3/4% to M/s. Armstrong Smith Ltd., on all sales effected by the Company of products of the Vegetable Ghee Manufacturing Plant at Kanpur in consideration for their assistance in procuring finance for the Company and also supervising and assisting the Company in making the Sales of the product of the said Plant at Kanpur effective from 1st April, 1969.

8. To consider and if thought fit to pass the following Resolution with or without modification as an Ordinary Resolution :

RESOLVED that the Company hereby approves the payment made and to be made of commission at 3/4% to Shakti Trading Co. Pvt. Ltd., on purchases of Oil, Chemicals, Raw Materials, Packing Material etc. for the purpose of running the Vegetable Ghee Manufacturing Plant at Kanpur, in consideration of their assistance in procuring finance for the Company and also supervising and assisting the Company in making the Vegetable Ghee Manufacturing Plant at Kanpur effective from 1st April, 1969.

EXPLANATORY statement in regard to the Special Business as required under Section 173(2) of the Companies Act 1956 will be included in the Notice of the Annual General Meeting to be sent to the Shareholders alongwith the Balance Sheet

By Order of the Board of Directors
For THE GANESH FLOUR MILLS COMPANY LTD.,
Sd/- KIRPA NARAIN,
Secretary & General Manager

BOMBAY
Dated 17th, December, 1969

N.B. (*a*) The Register of Members of the Company will remain closed from 6th January, 1970 to 19th January, 1970 (both days inclusive).

(*b*) Members unable to attend are requested to send their Proxy form, sent alongwith the notice, duly stamped, signed and completed in favour of a person attending the meeting. Form not properly signed and/or completed or received less than forty eight hours before the meeting will be treated as invalid.

(*c*) A member entitled to vote is entitled to appoint a Proxy to attend and vote instead of himself and that a Proxy need not be a member of the Company.

(*d*) The Agreements referred to in explanatory statements of item Nos. 6, 7 and 8 of the Agenda will be open for inspection of Members at the Registered Office of the Company from 6th January, 1970 to 19th January, 1970

RECORDS AND STATISTICS

RIVAL CONGRESS GROUPS ON ECONOMIC ENDS AND MEANS

THE two groups into which the old Congress party has been split up have presented in broad outline their thinking on issues of economic policy. The Congress (O), meeting at Gandhinagar in Ahmedabad, affirmed its commitment to socialism specifically in terms of the Ten-point Programme and declared that the urgent task today was to impart effectiveness and reality to that programme. While stating that it accepted public ownership and direction of the commanding heights of the economy, this party emphasized the importance of a dynamic private sector within the framework of a mixed economy.

Congress (R), holding its plenary session in Bombay, pointed out that the Ten-point Programme was already in the process of implementation and pledged itself to the early enforcement of certain measures, including a ceiling on urban property, which it regarded as the essential features to a radical approach to socialism.

We reproduce below the texts of the relevant resolutions of the rival Congress groups :

Congress (R) Resolutions

The following is the text of the economic policy resolutions adopted by the Ruling Congress Working Committee:

The Indian National Congress is pledged to the establishment of a casteless and classless society based on principles of social, economic and political justice and equality of opportunity and freedom to work. This can only be realised when democracy extends from the political to the social and the economic spheres. This stand of the Congress Party has been made clear at various Congress Sessions, viz., Karachi in 1931, Avadi in 1955, Nagpur in 1963 and Bhubaneshwar in 1964. In pursuance of the objectives an immediate programme for implementation was given as Ten-Point Programme in June 1967 and the note by Mrs Indira Gandhi was approved which indicated an outline for National Economic Policies at Bangalore in July 1969.

After long foreign domination resulting in stagnation and deterioration in the standard of the life of our people, free India entered the second half of the century with new hopes and aspirations. Independent India under dynamic leadership of Jawaharlal Nehru launched upon a programme of planned development to attain economic growth and social progress.

Within a period of two decades, in spite of many hurdles and difficulties in the form of wars with our neighbours and drought and famine due to the uncertainty of nature we have scored significant successes in the field of economic development.

Regional Imbalances

It cannot be denied, however, that despite visible changes in the pre-Independence structure of the Indian economy, certain sections of the community have amassed enormous wealth, and taken as a whole tens of millions still live in conditions of poverty. The glaring inequalities are reflected in flamboyant display of material possessions, and even more in the exercise of economic power to the detriment of social progress. The process of development has also brought into sharper focus regional imbalances. Besides, rapid expansion of education has outspaced opportunities of employment.

It is this twin problem of poverty and unemployment which requires our immediate attention. It is this imbalance which is the root cause of the deep crisis in the country. Significant changes in the social and economic structure alone will set right this imbalance.

In this context the Indian National Congress wishes to reaffirm its socialist policy as follows: (*i*) to attain a rapid rate of economic growth in which prior consideration is given to the income groups farthest removed from the national minimum relating to basic needs; (*ii*) to bring about a basic change in the existing economic relationships in society with a view to eliminate the exploitation of the weaker by the dominant; (*iii*) to reshape the economic structure in a way which will yield maximum production without allowing the emergence of private monopolies and growth of concentration of wealth and economic power; (*iv*) to establish and encourage such economic and social institutions as strengthen and consolidate our democracy and socialism in the light of our experience of these institutions during the last two decades; and (v) to increase employment significantly and in such a manner as will result in fuller utilisation of manpower which is one of the most important productive resources of the society.

The Ten-point Programme was adopted to put an end to the distortions existing in the economic life of the community. This programme is under implementation. Nationalisation of 14 major banks, passage of legislation against monopolies constitute an important landmark in the implementation of the programme. The Congress while renewing its pledge to implement this programme in its letter and spirit, emphasises early implementation of following items: 1. Nationalisation of General Insurance, 2. Abolition of privy purses and privileges of the ex-rulers, 3. Ceiling on urban property, 4. Procurement of the surplus foodgrains specially of wheat and rice to become progressively the monopoly of the state, assuring to the producer an economic and remunerative price even in the context of greater production and to avoid the exploitation of the producer and consumer by middlemen, 5. To bring the import of raw materials into the state sector to play a predominant role in export trade.

Farm Development

Major, medium and minor irrigation schemes should continue to receive priority in central and state plans. However, special attention needs to be given to the encouragement of research investigations to increase agricultural production on dry lands. A major forward thrust in the technological transformation on unirrigated farming is most necessary for the fuller exploitation of land resources and to enable the so far underdeveloped areas and helpless farmers to have better incomes and living conditions. We spend crores of rupees in an unplanned ad-hoc famine relief measures in the event of the failure of the

meagre rainfall in areas outside the good monsoon belts. Only the introduction of new technology can help to improve yield and incoma by over 100 per cent, in transforming the outlook and economic position of the farming community in such areas, besides providing opportunities of employment to the unemployed and under-employed engineering graduates, because their skill would be greatly needed in helping the dry areas to march forward in production. A new deal for farmers in dry areas would not only help to erase a major source of poverty and economic instability but also will open the door to gainful and satisfying employment to our young and technically qualified persons.

The basis for extension of credit has largely been ownership of property. The transformation from capitalist to socialist society can become a reality only if the basis for extension of credit is consciously changed from credit worthiness of persons to credit worthiness of activities. There is great need to give a new orientation to the various agricultural extension programmes. The small and medium size cultivators should receive priority in credit from the nationalised banks under a suitable system of guarantee by the state governments. Co-operative credit societies should in addition meet financial requirements of more and modern agricultural inputs. Rural co-operatives of the small and medium cultivators should be encouraged for mutual help and avoidance of middlemen in marketing of produce and agricultural inputs.

Credit Facilities

Credit facility should be made available from nationalised banks and the co-operative financial institutions, also to landless labourers to enabe them to take up subsidiary occupations such as farming, piggery, forests etc. Another important sector which has so far suffered neglect for want of adequate credit facility is fishery. Bank system should extend credit facilities for modernisation of their trade, which constitute the principal means of livelihood for some of the most backward section of our society.

The Congress calls upon the central and state governments to: (*a*) organize special programmes for dry farming; (*b*) develop suitable crop varieties for dry lands; (*c*) ensure adequate allocation of credit and other inputs to small farmers and beneficiaries of land reform, and (*d*) strengthen all the supporting services, especially co-operatives and agro-industries.

Land Reforms

The Congress recognise the crucial importance of land reform, both as a measure of social justice and as an important input of agricultural development. The Congress believes that such land reform should be implemented in stages and recommends adoption of following steps as a matter of urgency:—(*a*) the abolition of all remaining intermediaries by the end of 1970, (*b*) review of existing provisions relating to resumption of land with a view to make them more stringent, (*c*) conferment of security of tenure on actual tillers of the land, (*d*) settlement of landless agricultural labour on surplus land, (*e*) consolidation of holdings throughout the country, (*f*) barring the jurisdiction of civil courts by setting up special tribunals for speedy disposal of land reform litigation, (*g*) provision of free legal aid to tenants

and share-croppers, (*h*) association of prospective beneficiaries with the actual implementation of land reform, (*i*) a vigorous programme for assignment of government waste land suitable for cultivation to landless with special preference to scheduled castes and scheduled tribes within two years and provision of adequate financial assistance for improvement of such land.

Industrial Policy

The Congress recognises that the major thrust of any industrial policy must be towards stimulating the growth of productive forces. With this object in view, licensing procedures and other regulatory mechanisms should be designed on the one hand to stimulate production and on the other to prevent the evils of concentration of economic power and growth of monopolies.

It is essential to clearly define the respective areas of the operation within which the public and private sectors are to operate in our country. Once such a definition is made with clarity and precision, the constant controversies relating to the respective roles of the two sectors would be quietened.

In order to promote proper growth and functioning of the public sector, it is essential to urgently implement the following measures: (*a*) Public sector enterprises must be ensured greater autonomy and each must be judged only in terms of its performance; (*b*) Sound personnel policies must be immediately evolved together with a comprehensive system of incentives and performance evaluation. Immediate steps should be taken designed to reduce the production costs through better inventory control, maximisation of production from the installed capacity etc: (*c*) The evolution of a sound pricing policy; (*d*) Workers of industrial plants should participate increasingly in the management so that they can have a sense of belonging.

These necessary reforms shall be taken up for implementation forthwith.

As an essential corollary to a sound and effective industrial policy, certain reforms of public financial institutions is essential both in the realm of the policies pursued by these institutions and in respect of their management. The object of both these reforms is to make the financial institutions subserve priorities of plan and social objectives. It should be an important objective of the new industrial licensing policy now under formulation to protect adequately the interests of small-scale industry. The present area of reservation for small-scale industry should be enlarged and the reservations properly enforced.

Organic links should be established between small-scale industry and large-scale industry. Special responsibility should be cast on large enterprises both in the public and private sectors to encourage the establishment of ancillary units for production of parts and components.

The credit policies of the nationalised banks should have an in-built bias for favour of the small entrepreneur.

Licensing policies and procedures and the lending policies of financing institutions should alike be oriented towards provision of all facilities for new entrepreneurs so that there might be widest diffusion of opportunities for the blossoming of entrepreneurial talent latent among India's educated youth. Such a positive programme of identifying and nurturing new entrepreneurs could alone act as an effective check against the concentration of economic power in the hands of the big industrial groups and also facilitate industrial development on a widely dispersed basis.

The Congress recognises that even the best policies designed to promote industrial growth and development cannot succeed unless management as well as the labour develop new attitudes of social responsibility and evolve relations of mutual respect, trust and confidence.

Greater Equality

Some measures designed to bring about greater equality, e.g., the abolition of privileges and privy purses of ex-rulers, ceiling on urban property, have already been set out in this resolution. However, continuous efforts along the following lines are necessary.

(*a*) Steps to unearth black money and its proliferation should be taken continuously. Amendments to the law to increase penalties and to expedite judicial processes are also called for.

(*b*) Continuing drive to reduce tax arrears should be mounted and kept in steam in order to effectively deal with the widespread problem of tax evasion and avoidance. The following measures are urgently required to be taken: (1) an expert group to be set up by central government to urgently examine the justification of various exemptions given in the matter of taxation and to set up an effective machinery for evaluation of property is called for; (2) appropriate legislation to deal with tax evasion and tax avoidance especially when such assistance is due to formation of private trusts etc. is also a matter of immediate importance.

The Congress is of the opinion that it is necessary to take a fresh look at the problems arising out of the rapid growth of metropolitan cities and other urban areas. Urgent measures in relation to housing, sanitation and effective measures to prevent air and water pollution besides providing cheap and inexpensive transport specially for students, working class etc., are urgently needed.

The plight of the scavengers with special reference to their inhuman equipments for carrying the night soil needs urgent solution.

Slum Clearance

Slum clearance should be undertaken in big cities by separate housing corporations to be set up for the purpose. The aim will be to provide basic amenities, rent control, replacement of slum dwellings by inexpensive but pucca structures.

The Drug Control Act should be strictly enforced. Basic drugs should be made available at reasonable prices.

The nutritional requirements of three groups: pre-school children, pregnant mothers and nursing mothers will have to be given high priority. The portein needs of children of 0-5 age group are particularly critical as unless these are satisfied physical and mental development and growth are impaired and irreparably damaged. Therefore first priority should be given to the provision of a balanced diet to every child in the age group of 0 to 5 to grow into a normal healthy human being.

In view of the vastness of the problem and the meagre resources of the state a beginning may be made towards the implementation of this programme by initially covering under the scheme children belonging to Harijan basties, tribal pockets and slum areas. Besides a scheme of special na-

tional cess to raise a children's fund should be worked out.

Among the strains and deprivations to which landless labour and others who hold small-holdings are exposed is the absence of even minimum shelter. As the Congress Manifesto has emphasised it is essential that home sites of suitable size are provided to all such families as required by them free of cost in deserving cases and at concessional rates to others. The state governments should take immediate and effective steps to make available to landless labour and others in similar circumstances this basic amenity of life.

There has been in recent years considerable emphasis on the need to provide drinking water in all villages which are without a source of drinking water. A recent survey, which reveals that over a lakh of villages were without a source of drinking water and over a lakh and a half had inadequate sources, should infuse a sense of urgency in the implementation of drinking water programme so that by the end of the fourth Plan no village should remain without this basic requirement of human existence.

Rural Works Programme

Increasing employment potential should be one of the main objectives of economic planning. In this connection the Congress wishes to reiterate the importance of rural works programme like agro-industries, reclamation of land, soil conservation, afforestation, minor irrigation, feeder roads, cattle development and other programmes of area development.

The solution of the unemployment problem is integrally related to economic growth and its equitable distribution. The creation of a higher level of employment requires high rate of capital formation. Nevertheless, we must deal with the problem of wide spread unemployment in the rural and urban areas on the basis of the highest national priority. In order to achieve this the following measures have already been taken within the frame work of the fourth five-year Plan, namely—

(1) Enlargement of the size of state plans involving larger outlays for programmes such as major irrigation, minor irrigation and rural electrification which have been facilitated through the support provided by nationalised banks to the borrowing programmes of the state governments and the electricity boards;

(2) Acceleration of a programme for a large network of rural workshop for hiring and servicing of tractors, electric motors and pumpsets and agricultural implements:

Unemployment

As an earnest of determination to make a significant dent on the problem of unemployment it is resolved to take following additional measures: (1) large-scale recruitment of labour from the ranks of the unskilled and skilled unemployed; (2) utilisation of this labour for the creation of capital assets which lend themselves to labour-intensive construction and rural works programme; (3) establishment of appropriate organisational and other institutions for implementing the programme; (4) development of rural marketing which has a large potential for employment. Special stimulus to be given to undertakings in public and private sectors to promote ancillary industries, and (5) enlargement of allocation for housing, slum clearance and urban improvement programmes with support from financial institutions.

All citizens of India and more especially those sections of our community who are fortunate to live in comfort when millions are denied the satisfaction of their most elementary needs should create and sustain throughout the period of economic development an atmosphere of austerity and total abstinence from conspicuous consumption.

The central and state governments, statutory corporations, municipal bodies and private individuals should meticulously avoid all wasteful expenditure; vulgar display of wealth and ostentatious expenditure where possible be abolished or strictly controlled. Those who seek to serve the public including ministers, other elected representatives of the people and government servants, should voluntarily undertake to reduce wasteful expenditure connected with their official position, especially in matters like travel, transport, consumption of electricity, furnishing of houses, and entertainment both on private and public account.

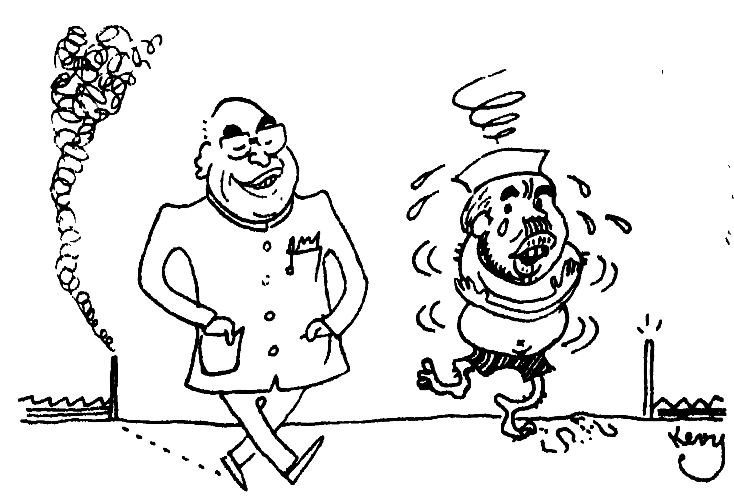
Craze for Affluence

The Congress deplores the craze among the affluent for things foreign especially when goods of comparable quality and utility are being increasingly manufactured in the country.

In order to develop pride in India's industrial achievement, it is necessary once again to propagate the Swadeshi movement.

The objectives and programmes outlined above are designed to create a strong, self-reliant and socialist India in the near future. The imperatives of the social and political situation are such that a dedicated effort by the government and all sections of the people should be made, with a sense of urgency, to implement these programmes.

While pledging its whole-hearted commitment to the programme mentioned above the Indian National Congress fervently



Ahmedabad Advance—Bombay Spinning and Weaving

appeals to the countrymen in general and Congressmen in particular to strain every nerve and bear all burdens in this battle against poverty, unemployment and inequality.

Draft Modifications

The comprehensive economic policy resolution as adopted by the Subjects Committee after amendments is not available as we go to press. Some of the changes incorporated in the final draft, however, are given below:

The final draft recommends "wholesale trade procurement of major agricultural commodities in the public sector." Prior to the modifications the draft resolution talked of only a progressive monopoly for the state in the procurement of surplus wheat, rice and other foodgrains.

The draft also asks for expeditious transfer of all import trade of raw materials into the state sector, and for a predominant role by the public sector in the export trade. The earlier draft had implied immediate take-over by the state of raw material import and domination of export trade whereas the final draft would give the government some time.

The CWC has stuck to the original brief for early implementation of the party programme for nationalisation of general insurance, abolition of princely purses and privileges and urban property ceiling.

The final draft would have the proposed state-guaranteed credit facilities by nationalised banks to be confined to cultivators with "small holdings."

The earlier draft wanted the facility extended also to "medium-size" cultivators.

The final draft would have the state-guaranteed credit facilities extended by nationalised banks also to landless labourers to help them take up dairy farming, animal husbandry, poultry and other subsidiary occupations.

The draft has dropped the demand for extension of nationalised banks' credit facilities to fishermen to modernise their trade.

The draft inscribes a directive to state governments to fully implement by 1970-71 all land reform laws so far enacted.

The pre-panel draft did not have any directive to the states but merely expressed the party's desire for urgent implementation of a nine-point land reforms programme.

The basket of land reforms now going to the state governments as a directive contains eleven items in all.

Besides full implementation of existing land reform laws, it carries a directive for recovery of lands above statutory ceilings as well as lands under benami ownership, and their distribution among landless labour.

The final draft makes a clear declaration in favour of enlarging "the role and scope of the public sector." The earlier draft would have confined the public and the private sectors to the present spheres of operation.

An important proposal in the earlier draft that has now been dropped is one asking that the credit policies of the nationalised banks be given an inbuilt bias in favour of the small entrepreneur.

No other change has been made in the proposals for a new industrial policy, which calls, among other things, for immediate reform of the public sector to make it more efficient.

The final draft drops the original plea for continuous efforts to unearth black money, to make the penalty laws more stringent, to reduce tax arrears and to fight tax evasion and avoidance.

Instead, it asks the centre to appoint an expert group to investigate the malpractices and suggest legal and administrative measures to tackle them.

The draft also accepts in principle the ban on forward trading in agricultural produce and also proposes reservation of processing industries based on agriculture for industrial cooperatives of producers and new entrepreneurs.

Congress (O) Resolutions

The following is the text of the economic policy resolutions adopted by the Organisation Congress.

The profile of the economic and social policy advocated by the Congress has been firmly drawn. The ten-point programme is a part of this profile. To impart it effectiveness and reality is the urgent task today. The Congress commitment to socialism involves adherence to a socialist process of change and emergence of a socialist society as the end product. To eliminate embedded inequalities, to provide equal opportunities in education, employment and occupations, to rapidly expand and diversify production with ever-improving skills and techniques, to raise levels of living and of creative leisure, to provide social security against varied hazards to life, while strengthening and extending democratic rights and participation of the people in the governance of the land, is what the Congress has always striven and will continue to strive for.

The Congress has accepted public ownership and direction of the commanding heights of the economy. The expanding public sector has to be efficient, productive, and organised to strengthen the democratic growth of the society. In our mixed economy, the private sector has also to function with a sense of social responsibility and justify itself by improved productivity, technological innovations and managerial competence and continuous research. Both sections should be fully enabled to discharge their respective roles which are complementary. The sector of economy that needs devoted nurturing is that of myriad small and individual producers — agriculturists, artisans, small entrepreneurs, transport operators, petty traders, and which must form the backbone of national effort. All these producers, through their co-operative efforts and through state aid, will receive our special care. To raise their skills, productivity and income will be our constant aim and preoccupation.

Re-Invigorated Agricultural Economy

The heart of the country, the base of the economy, is agriculture. The well-being of the man behind the plough and growing production in the field will receive equal attention. The tillers of the soil have to be made owners by a targeted date. In this connection it is unfortunate that the progress of implementation of land reforms has been halting and inadequate. It is, therefore, necessary to quicken the pace of progress. Urgent steps have to be taken to remove intermediaries and to assure security of tenure to all tenants. The tillers of the soil have to be made owners by a targeted date. Simultaneously measures have to be taken to improve and increase the per acre production and adjust ceiling on holdings to achieve equitable distri-

bution of land, with rising levels of living among all those whose vocation must be agriculture. Measures like irrigation, electrification and the application of fertilisers must extend and cover every corner of the country. The insurance of crop and cattle is an absolute necessity, immediate steps must be taken to implement it. The credit facilities needed for this comprehensive and massive development and production programme have to be provided through the nationalised banks and co-operative institutions. The producers will be assured of remunerative prices. A positive scheme of developing waste lands and making them cultivable and distributing them among the landless labour must be immediately taken in hand.

The Congress pledges to assist the agricultural workers to get organised. Minimum wages will have to be prescribed for them and enforced. An extensive programme of rural productive works will ensure employment and augment earnings of the rural poor. Simultaneously, these works will help to improve productive facilities and social amenities for the rural people.

Notwithstanding all this, the urgent problem of relieving the present crushing burden on land remains. It is an undoubted fact that the villages are becoming overcrowded and too much of the population depends on land. Any scheme of eradication of rural poverty cannot fail to take note of this glaring fact and the urgency of mitigating it. The only safe and sound remedy is to develop areas of absorption in rural environment based on dispersal of industrial effort and development of small townships flourishing on small-scale industries, particularly in the agro-based fields. Schemes of slum clearance should also embody the development of such small townships in areas where labour and employment are made available.

Diffusion of Industries

The satisfaction of rising and varying needs of the rural consumers should be met by enabling people in villages to establish more and more agricultural processing-industries and agro-industries preferably on a co-operative basis. While basic materials, as in metallurgical or chemical industries, will have to be produced on a large scale, further processing and final fabrication will be done in a dispersed manner. The small-scale industries are thus the main dynamic element in industrial growth consistent with maximum benefit to the country in both development and employment.

Banks and National Guarantee Scheme

The Congress welcomes the nationalisation of banks in furtherance of the declared policy of the Congress and urges the need for urgent follow-up measures. It demands clear steps in which credit facilities will be provided to small farmers, artisans, lower middle classes, small-scale entrepreneurs and professions to meet their production and development requirements. The credit as an engine of economic growth has to be employed, without endangering the security of the deposits. The Congress calls upon the Government to formulate a National Guarantee Scheme to enable millions of farmers and producers who are not usually deemed to be creditworthy to receive liberal credits for productive purposes from the banks.

While organising our economy, the co-operatives have to play an increasingly important role. The existing co-operatives have to be strengthened and consolidated and new societies formed to bring agricultural production, marketing and processing under producers' control. Effective steps have to be taken to bring the benefits of the co-operative movement to the submerged

sections of the community. At present co-operatives have developed well only in some regions; they have to be established effectively and expeditiously elsewhere too.

Socialism in Action

The industrial and other workers must not only receive fair wages but, where possible, and as quickly as practicable, a living wage. They have to be helped to organise themselves in healthy trade unionism shorn of interference of employers or political forces unconnected with their real needs. The industrial workers must be enabled to share profits as well as control of an enterprise by ploughing some of their savings into investment. At the same time, tests of performance and productivity must be fully met by labour. The fiscal system needs to be progressively reorganised to enable workers to share the retained profits. That way capital gains too will be spread. The workers' right to participate at progressively higher levels of management in an enterprise applies to all industries, whether private or public.

The underprivileged in the society, particularly those who belong to the scheduled castes and scheduled tribes, have special claims for speedy improvement. Their economic and educational advancement has to move forward at a faster pace. To give them equality in all spheres of life, in trade, industry and other occupations, special preference must be shown to them in any scheme or plans that are drawn up. Socially no discrimination of any kind must prevail against them.

While India cannot ensure social equality to the people here and now, our earnestness has to be shown in what we do for our children. The Congress, therefore, attaches the highest priority to the provision of nourishment, particularly high protein food, to all the children. Progressively the school children must receive free uniforms and books.

The Congress, after Independence and the establishment of our democratic Republic, embarked on planned programmes of economic and social transformation and placed before the people the goal of assuring minimum living standards to every family in the country by 1975. That year remains for us the year of tryst with our promise, even though we recognise that after the completion of the three five-year Plans there has been retardation in our efforts due to delays and difficulties in the preparation of the fourth five-year Plan. This means that our efforts in the next five or six years must be intensified and our progress accelerated. To achieve that objective, the Congress will ceaselessly strive for mobilising and releasing the constructive energies of the people, imparting to the administration a sense of urgency and purpose, and work for social justice that would enable fast growing production to be evenly distributed.

The Congress, however, is constrained to observe that a new factor retarding our growth is the dilatoriness in decision-making, and confusion of policies. Ad hoc and arbitrary decisions and preference for vague and conflicting formulations without a firm framework of policies and programmes are aberrations which must be corrected. The Draft Fourth Plan is inadequate both in terms of maintaining the momentum created and for achieving the goal of self-reliant growth and the fulfilment of basic social objectives. It does not provide for the utilisation of human and physical resources built up with the result that a large number of technically trained persons remain unemployed and industrial capacities remain under-utilised.

The Congress record has been one of eroding privileges of birth and position. The privileges and privy purses enjoyed by the princes are not just anachronism in a democratic society, but are inconsistent with the urgent social need to eliminate ostentatious living. They shall end forthwith.

Assertion of Equality

The Congress will work to abridge the sharp inequalities in property and income that prevail in rural, and even more in urban areas. By firmly carrying out land reforms and by adopting varied measures to increase production particularly in small holdings we shall move towards economic equality in rural areas. Incomes earned from improved efficiency and productivity have to be treated differently from unearned incomes. Unearned incomes are more in urban areas and these inequalities of wealth are sharper. If fiscal measures will not abridge these inequalities, it may become necessary to undertake other measures including capital levy. Consumption-expenditure has to be restricted in the interest of productive investments. Social facilities for education and health have importance over individual's comfort expenditure.

For long our people in hundreds of villages are suffering from lack of drinking water facilities. The Congress resolves to provide these facilities to all the villages as its top priority. The shortage of housing, which is felt today, is likely to become more acute in the future both in urban and rural areas. Expansion of housing programme for the mass of people requires setting up of a revolving fund, annually expanded, to carry forward 'building programme' and also encourages saving from them either directly or through the medium of insurance policies. For the poor people of all communities house sites shall be provided by the community as well as the government and assistance offered to enable them to construct their dwellings.

The Congress deplores the delay in implementing the programme of prohibition. It reiterates its resolve to bring about prohibition within the period specified by the AICC in Goa.

Equal Status & Opportunities

India that we seek to serve has to evolve on the contributions, historical as well as contemporary, of all our communities. All religions and languages have not only equal status but equal opportunities for growth and fulfilment. The religious or linguistic minorities are entitled to necessary protection and to special facilities to enable them to share in a meaningful manner the fruits and efforts of economic and educational developments.

The Congress beckons the Indian people to a renewal of efforts to overcome age-old disabilities of poverty, want, ignorance and ill-health. The cruel paradox of vast potential wealth and gross poverty can be solved only through sustained constructive efforts and co-operation. In this glorious festival of work and national reconstruction, the poor have claims on the well-off, the ignorant on the educated, where each one of us rediscovers the truth that Gandhiji taught that one truly gains only through giving, and where respect stems not from the nature of work one is engaged in but from the manner of doing it. The Congress calls upon its workers and supporters to rededicate themselves to fight poverty and root out inequality.

Regd. No. D-314
Registered with the Registrar
of Newspapers for India
under No. R. N. 535/57

Printed and Published by R. P. Agarwala, on behalf of the Eastern Economist Ltd., United Commercial Bank Building, Parliament Street, New Delhi, at the New India Press, Connaught Circus, New Delhi.
Editor : V. Balasubramanian
Registered at the G.P.O., London, as a newspaper

EASTERN ECONOMIST 2

ES 1.50. JANUARY 2, 1970. VOL. 54

Appadorai on Property Rights

Will the Lead Banks Lead?

The Export Crash

Congressman Passman Vs Indian Rats

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From "First Things First"

...mbers of the "model parliament" shouting anti-Morarji Desai and anti-Syndicate slogans on Friday evening.—N. H. photo

EASTERN ECONOMIST

JANUARY 9, 1970

ANNUAL SUBSCRIPTION
INLAND : Rs 85.00
FOREIGN : £7-0-0 or $17-00
Airmail & Advertisement Rates on Enquiry
REGISTERED OFFICE
UCO Bank Building, P. Box 34, Parliament Street, New Delhi-1.

FIRST THINGS FIRST

OVER THE past some weeks, practically everybody who is anybody has been talking about the gravity and urgency of the problem of mass unemployment. The Jana Sangh even as the two Congresses, has, in its resolutions, given the highest political priority to programmes for creating more employment opportunities for educated young men as well as for landless agricultural workers in the countryside. The Federation of Indian Chambers of Commerce and Industry too has dwelt on the theme as also Mr J. R. D. Tata, who, speaking recently at a symposium on the "Seventies" under the auspices of the Associated Chambers of Commerce and Industry, roundly declared that if food shortages had been our greatest problem in the sixties, unemployment would be the foremost issue in the seventies.

While all this emphasis on the employment aspect of economic development may be wholly warranted in its context, it seems to us that the present economic situation demands a closer and more disciplined evaluation of what precisely are the immediate tasks facing the nation in the economic field. For instance, it is not quite true that food has ceased to be a problem with the birth of the new decade. The technology and even more the psychology of the green revolution are yet to seep through the top layers of the farming community. The politics of agrarian reform have sadly disorganised the structures of land ownership and tenancy, with the result that the obligations of the various interests in land have become vague and undefined and have, therefore, been mostly unfulfilled. It is also yet to be seen whether nationalised banking will, in fact, be so conducted as to come up to the high expectations entertained of it in terms of a transformation of the rural credit situation. The issue of increasing agricultural productivity must therefore continue to remain a basic consideration in all calculations of economic stability or expansion. This truth has been dramatically brought out by the fact that the failure of winter rains in some parts of northern India has promptly sent up the prices of cereals and pulses. It would be rash, indeed, to doubt that the food economy continues to be precariously placed.

As vital as agricultural productivity is industrial production. Mr G. D. Birla, speaking recently in Bangalore, has sounded a timely note of warning. He has pointed to the emerging shortages of many products of industry which are essential articles of consumption. The shortage of steel is acting as a bottleneck in a number of lines of manufacture, resulting in the halting or dislocation of the production of a variety of producer and consumer goods. The Government of India recently chose to reverse an earlier decision to decontrol cement in response to representations that there was a risk of cement becoming more expensive or less readily available to consumers in areas which were some distance away from cement factories. Thanks to unrealistic price policies which have inhibited new investment in expansion, manufacturing capacity in the paper industry is now seriously lagging behind the growth of demand. In the case of textiles, even a marginal revival in demand or improvement in offtake could bring to the surface the consequences of stagnation in production and capacity over the past few years.

In follows that, while the bold new projects of political or business leaders for creating millions and millions of new jobs in the years to come may be perfectly valid in their context, the task which confronts the national economy as of today is the expansion of production in existing industries and a quick processing of new industrial projects. Mr G. D. Birla has rightly contended that the likelihood of a scarcity of goods and the consequential inflation that threaten the country today are entirely avoidable and would, therefore, be strictly in the nature of man-made evils should they after all take shape. In his view, there is no time to be lost in reviving and revitalising the capital market, since it is

only an early increase in the level of investment which will activate production and save the country from shortages of goods and a scarcity-induced inflation

Some time ago, the Governor of the Reserve Bank of India, speaking under the auspices of the Associated Chambers of Commerce and Industry, chose to repeat the pedantic argument that economic growth carried the risk of inflation whenever investment outpaced the savings of the community. But even as truisms go, his observation contains very little truth in the current Indian context. There has never been a danger in this country of true investment exceeding the community's savings and thereby causing inflation. On the other hand, what has regularly been happening is a succession of inflationary situations occasioned by production avoidably falling short of consumption It is to this situation that Mr Birla has drawn attention. In any case, so far as the equation which the Governor of the Reserve Bank insists on drawing between the rate of investment and the savings of the community goes, it may be suggested that these savings after all can be and to some extent are being supplemented by the savings in other communities made available to us in the form of foreign aid or foreign private capital. It should be obvious that, in any dynamic conception of economic growth, the level of investment cannot be limited to our domestic savings, but should be geared to the total availability of investible funds, including external resources, such as foreign private capital.

The implication is that the possibility of monetary inflation, which seems to haunt the Governor of the Reserve Bank, may be dismissed as a private and personal nightmare. The real threat to the economy would be a scarcity-induced inflation of the kind which Mr Birla apprehends. The need of the nation and the duty of the government are thus clear; this would be to boost production and step up the rate of investment with domestic savings supplemented by external capital, including foreign private investments. Mr Birla believes that if the people do agitate for a positive economic policy, their voice will have to be listened to by the government in a democracy. Mr Birla is an incorrigible optimist. He was speaking, moreover, on New Year's eve.

Trade Follows the Flag

TRADE FOLLOWS the flag and our businessmen are now reacting to our politicians. Not all of them are reacting in the same manner, naturally. Some businessmen are apparently not above fishing in the troubled political waters. Adventurism or opportunism is not the peculiar failing of politicians. In the business community, too, there are many who are evidently not able to resist temptations. The Federation of Indian Chambers of Commerce and Industry already has reason to realise this.

We are not suggesting that the FICCI is perfect. For most of the time it has been a pedestrian and petitioning organisation. A sense of mission has never been among its prized possessions, while anything like a philosophy of business or an organised system of thinking on the role of free enterprise in a free society has clearly been among the luxuries which the FICCI has consistently considered expendable. All the same, over a troubled and testing period this apex body of chambers of commerce and trade associations in the country has, with a certain degree of stubborn persistence, endeavoured to present a collective point of view where government-business relations or the larger issues of the nation's economic affairs are concerned.

In the process, it has had its share of critics, dissenters or detractors. There is, of course, nothing odd or unnatural about this situation. But what must cause concern is the tendency, lately exhibited by certain businessmen, whether acting individually or in groups, to exploit the imperfections, real or alleged, of the FICCI for their own private ends. To the extent that businessmen are also human beings, it is to be expected that some of them would not be averse to jumping on political bandwagons. But what seems to us to be an altogether questionable practice is the attempt currently being made by some businessmen to curry favour with the central government of the day by projecting themselves as highly patriotic Indians whose selfless egos could no longer be accommodated within the sectionalism of the FICCI or other existing representative organisations of industry and trade. The best that could be said on their behalf could only be that, with politicians playing politics with business, businessmen, in their turn, must feel sorely tempted to do business with politicians.

In these circumstances, we have to be grateful all the more for an entirely different and wholly wholesome response to the challenge of current politics which has come from a group of businessmen led by Mr J. R. D. Tata. Stated briefly, Mr Tata's thesis is that the only way free enterprise may project and protect its image in these iconoclastic times as an economically efficient and socially purposive institution would be for it to emphasise its involvement with the people, their needs and their aspirations. Mr Tata has proposed that the companies in his group should make such changes in their articles of association as would emphasise the social obligations of corporate enterprise to workers, consumers, government and the community.

This Tata initiative is evidently intended to spearhead a broad movement of self-education, self-discipline and self-regulation by the private sector in industry and trade. The implication seems to be that free enterprise cannot remain content with seeking to justify itself on the purely economic grounds of production and productivity, and that it should also attempt to substantiate its social worth by relating its efforts and achievements to the larger goals commonly accepted by the community. There is a clear qualitative difference between this approach and that of certain other businessmen or groups of businessmen who have lately tried to work their way into the favours of politicians or political groups in power by out-Turking the so-called Young Turks. What Mr Tata and his associates plan to do is to take the issue of fair trade practices or good business conduct

out of politics and anchor it firmly where it belongs, that is to say, in the collective conscience and the individual conduct of the men of the free enterprise system. Viewed thus, the Tata project is far from being a submission to demagogic compulsions. It is a bid to save democracy for the free enterprise system and the free enterprise system for democracy.

Quite obviously, Mr Tata and his associates are embarking on a high adventure. If all goes well with their endeavour, they will have succeeded in dispelling the distrust of the business community which has been accumulating for years in the minds of ordinary men and women, partly as a result of the anti-social practices of individual businessmen during the years of the last world war and the subsequent period of government controls and partly because of the mendacious or malicious propaganda carried on by politicians for personal or party ends. There can surely be no place in this great effort for small men, small minds or small thoughts. If the alienation between the business community and public opinion has to be ended it would surely be necessary to mobilise all the constructive energies in the business community into one great co-operative effort. We therefore hope that, although the initiative has been taken by a few business leaders, viz., Mr J. R. D. Tata and some others associated with him on this occasion, their programme itself will not be planned or projected as the effort of a sub-group of the business community and that it will be presented and accepted as a common platform by the representative institutions of industry and trade. It is bad enough for the nation that its politicians are quarrelling among themselves Businessmen at least should rise above the weakness of working at cross-purposes with one another.

Will the Lead Banks Lead ?

TWO NOTABLE decisions have been taken by the Reserve Bank; one, to designate "lead" banks for the various districts in the country; and, two, to outline the branch expansion programme for the first half of 1970. These decisions follow the recommendations of the Nariman Committee (a committee was appointed, some time ago, by the Governor of the Reserve Bank, with Mr. F. K. F. Nariman, Custodian of the Union Bank of India, as chairman, to evolve a co-ordinated programme for ensuring the setting up of adequate banking facilities in the underdeveloped districts of the country, and this committee submitted its report on November 15, 1969) which, in turn, are on the lines suggested by Prof. D. R. Gadgil (as Chairman of the Study Group of the National Credit Council) and which also were fully discussed by a recent meeting (on December 12, 1969) of the Standing Committee of Bankers, and, subsequently, commented upon by them.

The "lead" bank is the king-pin of the future expansion of banking in this country, and it is only natural, therefore, that several considerations should weigh with the Reserve Bank in laying down the broad outlines of the scheme. The foremost of these is to match the responsibilities with the resources. Accordingly, it is laid down that there should be a broad correspondence between allocation of responsibility in respect of a given number of districts and the resource base of the "lead" bank-to-be in these districts. It follows, of course, that the resource base should take into account the deposits of the said bank and its present network of branches, as also the several places of their location. In allocating districts to each "lead" bank care has been taken to bear in mind contiguity. If a "lead" bank is in charge of, say, a cluster of districts, that is districts situated very near each other, it can ensure viability of operations as well as provide control points for both the supervision and the development of branches within a given radius. It can also plan for their long-term growth. While making the allocation of districts to these "lead" banks, it is just as well that the Reserve Bank has kept in mind the regional orientation of not only the nationalised banks but also of some non-nationalised banks. Another sound feature is that, whereas there are at least two or more, banks in each state, each bank has been allotted districts in more than one state, presumably for reasons of contiguity and convenience of customers. Care has also been taken -- and rightly -- not to include metropolitan centres and some union territories in this scheme, inasmuch as several of these are already oversaturated with banks.

A few days ago, presiding over a meeting addressed by an eminent foreign banker, Mr B. N. Adarkar, Deputy Governor, spoke of the need for the banker of the future to be more than a mere banker. He wanted him literally to be a friend, philosopher and guide to his clientele, especially the new rural clientele. The proposed functions of a "lead" bank seem to have been aimed at achieving this desideratum. We are told, for instance, that the "lead" bank is to be responsible for surveying credit need, for developing branch banking and for extending credit facilities in the districts assigned to it. It is also required to survey the resources and potential for banking development, as also the number of industrial and commercial units and other establishments, including farms which still depend on money-

lenders or, in other words, do not have bank accounts, and to help the latter increase their resources (through the creation of surpluses from additional production financed by it). It is not clear, though, whether the dependence on the moneylender is sought to be completely eliminated (this would be both a Herculean and an inordinately long-drawn-out affair)

Among others, the "lead" bank is also expected to examine the facilities for the marketing of both agricultural produce and industrial output while at the same time, linking credit with marketing, and also to survey the storage and warehousing space, especially for keeping stocks of fertilizers and other agricultural inputs. The "lead" bank is also to keep an eye on the facilities available for repairing and servicing of equipment, which is a *sine qua non* of the modernising of our agricultural equipment. But the most important feature is that of recruitment and training of the requisite staff whose work will consist not only of offering advice to small borrowers and farmers but also follow-up and inspection of the end-use of the loans.

Here, Reserve Bank seems to have displayed a measure of narrowness in its approach, in that the "lead" bank it to concern itself only with the priority sectors and that too sectors covered by the proposed credit insurance schemes. Does this mean that clients not falling under this category, present if any, and prospective, in the region covered by the "lead" bank have to fend for themselves? May be "lead" bank will assist other primary lending agencies to help these. And it is also not clear whether the moneylender, who has remained with us all along and bids fair to be with us for as many years in the future as one can visualise, is also one of these primary lending agencies in view. If not, we think it is high time to consider the place of the moneylender in the future banking set-up and examine ways and means of hooking him in the set-up. Otherwise, we cannot rule out the prospect of people in some "lead" bank districts being served by neither the organised banking system nor the age-old moneylender. Such people will be like "*Trishankus*" of being neither here nor there.

Even as we enter the seventies, we have in our country a number of places where banks not only do not exist but are not even heard of, wherefor we need not be over-apologetic about some of our adult folk in Tamil Nadu village recently surveyed by the Research Department of the Gandhigram Rural Institute not being aware of either bank nationalisation or the whole vista of opportunities it is claimed to have unfolded. As per the census of 1961, there are 453 towns where there are no offices of commercial banks. Besides these, according to the Reserve Bank, there are some 827 centres which are devoid of commercial banking facilities but need them either by reason of their potential for developing agricultural business or to take over treasury work. That already about 400 applications to plan branches in these centres have been received by the Reserve Bank (of which about 200 have already been sanctioned) fully bears out this thesis. So, the target of 400 offices in these unbanked centres and another 200 offices in centres already having banking facilities (of the 243 applications for opening offices in such areas, the Reserve Bank has already sanctioned 143 officies) during the first half of 1970 decided upon by the Reserve Bank is a perfectly feasible proposition.

Even so, the two together is still less than half of the 1,280 centres badly requiring banking facilities. In fact, however, the number may exceed 600, inasmuch as this 600 does not include offices in unbanked centres to be located and started by banks on their own, or those which they may open in districts falling in their respective "lead" bank zones. During the immediately two preceding six-month periods, July-December, 1969, and January-June, 1969, the number of new offices opened was 492 (280 in unbanked areas) and 482 (239 in unbanked areas), respectively. Besides, banks will also have other offices whenever and wherever they are ready and decide to take over treasury work (*i.e* between now and 1972). Since such offices must precede the actual take-over of treasury work, they would also be in a position betimes to provide banking facilities. The Reserve Bank has undoubtedly demonstrated its earnestness to expedite expansion of banking facilities in the country.

The Export Crash

THE SHARP set-back to our exports in recent months could have been averted if the Government of India had kept itself in close touch with the problems confronting industry and trade and promptly and energetically tackled them. At the meeting of the Board of Trade in New Delhi on December 15, Mr Bhagat, the Minister of Foreign Trade, disclosed several factors, external and internal, that had slowed down the growth rate in our exports. But none of these factors has emerged suddenly. The export promotion councils, commodity boards and the representative associations of trade and industry have been repeatedly drawing the attention of the government to their difficulties in getting regular and adequate supplies of raw materials and in other respects. But Udyog Bhavan has not been taking them seriously.

For instance, the Federation of Indian Export Organisations convened a meeting at New Delhi on September 25,1969, at which the representatives of almost all commodity boards and export promotion councils put forth their difficulties and suggested specific solutions. These were reiterated at the second meeting of the Advisory Council on Trade held in New Delhi on November 27 and 28, over which Mr Bhagat himself presided. The spokesmen of the engineering industry stressed at these meetings the imperative need for a co-ordinated approach for the production, planning and despatch of steel. Much of the difficulty, it was pointed out, arose from the complicated procedure in regard to priority allotment which worked only up to the point of placing orders with steel plants but failed at the point of despatch. The shortage was felt mostly in plates, sheets, billets and high tensile weldable quality structurals. It was also clearly indicated that except small tonnages, import of these categories of steel

would not be possible before April May 1970.

It is not only the engineering industry whose exports are held up by the scarcity of raw materials. Other industries like plywood, gem and jewellery, cashews, coir products, woollen goods and silk and rayon have also been facing difficulties in stepping up exports because of the shortage of raw materials. Other hurdles arise from the continuation of heavy export duties (as in jute, tea, tobacco, leather and coir products), canalisation of imports through the State Trading Corporation (as in raw wool), delay in getting import replenishment licences (as in plastics and linoleum) and in the lack of credit facilities (as in marine products for purchasing trawlers), and so on. Hardship is also caused by the inordinate delay in getting the payment of export incentives as a result of which huge funds are locked up. The crash programme for increasing the export earnings by Rs 60 to 70 crores in about 100 days could have been announced in last September or even earlier if only New Delhi had maintained close vigilance over the trends in our foreign trade.

The implementation of the crash programme in such a short period would have been difficult indeed even in normal times. It should be much more so at present when the capacity of the central government to ensure effective coordination among its own departments and with the state governments has become weak. To make the situation worse, the talks and threats of nationalisation of the import and export trade in the coming years create uncertainty and dampen the enthusiasm of businessmen. The examples of many developing countries where foreign trade has been taken over by the government should serve as a warning to New Delhi. In Burma, for example, the take-over of foreign trade has produced disastrous results because while, on the one hand her exports have fallen sharply, on the other hand, her ability to secure essential imports has been severely crippled due to the shortage of foreign exchange.

Mr Bhagat told the Advisory Council on Trade and also the Board of Trade that the STC and the MMTC were eminently suited to secure an equitable distribution of scarce raw materials and intermediates. He has announced the government's intention to accelerate the process of canalising the import of more raw materials. But the experience of canalisation in the past has been far from satisfactory. It has often accentuated scarcity and made the commodities costlier. In the present context, to canalise the import of more raw materials will affect the foreign exchange situation in two ways: first, the state agency will be paying more for its imports because of its inexperience and secondly, the higher prices of imported materials will have their inevitable impact on our exports.

Consider, in this context, the following observations made by the East India Cotton Association of Bombay on the proposal to canalise the import of raw cotton: "A comparative study of the purchases made by the Indian Mills through their importing agents during the last two to three years with the purchases by the east European countries including Russia and China will reveal that these countries paid much higher prices and received lower quality of cottons and this may happen to Indian mills also if centralised or state purchasing is resorted to. Cheapest movements which individual buying can take advantage of are lost in bulk buying operations. About 15 to 20 per cent of the cloth exported from India is manufactured from imported cottons and hence even a five per cent increase in the costs of cotton may seriously affect these exports".

It will be most unfortunate indeed if, because of ideology or indifference, we are unable to reach even the modest growth of seven per cent in exports in the coming years. Failure to reach the target will have an adverse impact not only on the export industries but on the entire economy.

It will, of course, be too much to expect efficient administration in New Delhi in the present political situation. But if at least the Ministry of Foreign Trade plays its parts effectively, it can do a good deal to improve our exports even in the short period.

The Ministry's control and co-ordination over the export promotion councils, commodity boards and other sections (such as the Jute Commissioner's office) has been far from adequate and its liaison with the leading chambers of commerceand industrial associations hasnot been intimate and purposeful. Why, for instance, does the Ministry not keep the chambers of commerce regularly informed about the discussions at the meetings of the Board of Trade and the Advisory Council on Trade? What is the harm if the proceedings of these meetings are circulated among the chambers so that they and their constituents can have a clear idea about the official approach to the problems of foreign trade? Incidentally, it is pertinent to question the utility of having two large and rather unwieldy bodies to advise the Ministry the Board of Trade and

Eastern Economist 25 Years Ago

JANUARY 12, 1945

Economic research in this country has, not infrequently and not without some justification, come in for the criticism that it has been without much fruit or light for our national life. Foremost among the critics have been the economists themselves. Successive presidents of the Indian Economic Conference have pleaded for a new outlook and a new interpretation of the science. Years ago Dr John Matthai characterized the results of Indian economic research as descriptive and propagandist rather than analytical and scientific. Two weeks back, Prof. L. K. Hyder, in his address, had to say that neither in the field of 'pure' theory nor in that of economic history nor in the training of young men had economists much to show. Truly, neither economics nor economists have as yet come into their own in India.

the Advisory Council on Trade. They meet at short intervals of each other, discuss practically the same problems and recommend the same solutions.

In any case, there has been enough talk on foreign trade problems in various forums in recent weeks. The time has now come for energetic and co-ordinated action at different levels to reverse the set-back to our exports.

Computers : Point of No Return

THE COMMITTEE on Automation with Mr R. Venkataraman (member, Planning Commission) as chairman is expected to finalise its report some time at the end of the current year. The committee has been asked to review the effects of the operation of automation in enterprises where it has been introduced and to recommend criteria for the determination of specific fields where it should be permitted or restricted. The primary objective of appointing this committee is to study the social effects of automation because some labour unions in this country have taken up an unhelpful attitude under the misapprehension that automation would lead to increased unemployment causing unwarranted misery and hardship to workers.

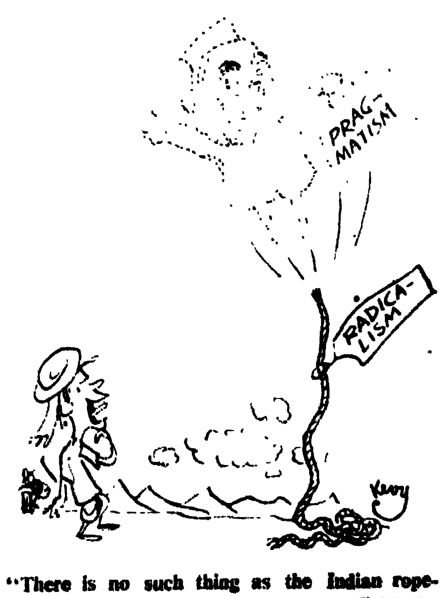
More than 100 computers have already been installed in this country and they have speeded up the working of a number of business enterprises and research organisations. TELCO, for example, has derived sizable benefits after computerization of its inventory control. It has enabled this enterprise to cut down its stock of spare parts and equipment by 20 per cent, thus releasing as much as six crores of rupees for productive investment. The Tombay plant of the Fertilizer Corporation of India has succeeded in reducing cost of production through computerized inventory control. The railways in our country are progressively introduceing electronic computers for rapid compilation of managerial data which is needed both for long-term planning and day-to-day work. Air-India and Indian Airlines have also derived rich dividends through the use of computers in obtaining managerial reports and in keeping the movement of men and materials under control. Automation has also assisted a large-sized shoemaking unit in keeping control over its plans for production, leading to reduced costs which in turn made exports possible.

There are numerous other examples of gains recorded through automation which have benefited the relatively large enterprises both in the public and private sectors. The pace of research work in our universities and laboratories such as the University of Delhi, The Indian Institute of Technology (Kanpur), and the National Physical Laboratory (Ahmedabad), to mention only a few of the institutions, has also been accelerated through the installation of computers. The Structural Engineering Institute, Roorkee, has started getting orders from foreign countries for solving some intricate structural engineering problems through the assistance of computers installed there.

The assurance given by the government that automation will in no case be allowed to lead to unemployment has so far failed to satisfy labour and in many places, the pace of work is still at a low ebb because of the recalcitrant attitude of employees. The most recent example is that of the workers of the Directorate of Commercial Intelligence and Statistics in Calcutta, who have been resisting computerisation for fear of unemployment even though the government has assured them that no one would lose his job because of automation. As a consequence, the members of the Board of Trade who met in the capital in December last year had inadequate data for framing guidlines, as the statistics in regard to our foreign trade are released by the directorate with a time lag of three months.

Again, the industrial statistics wing of the Central Statistical Organisation in Calcutta is another unit which releases industrial production figures with a time lag of five months. An obvious solution is to shift these offices from Calcutta to other cities but workers have threatened that they would see to it that no statistical information, especiaally relating to foreign trade, leaves Calcutta in case of transfer of these offices. It is these misguided sections of society which hold up our progress. Or, may be, the politically-motivated among them knowing fully well that automation is for the good of all, have taken up this unhelpful posture for some other ends.

Just as the discovery of the steam engine had ushered in the era of quick transportation, automation has provided a powerful instrument to man with which he has set foot on the moon and with which the new challenging tasks in science, business and industry are being tackled efficiently. We have, in this country, taken the right decision to hasten the advent of automation through such renowned companies as International Business Machines (IBM) and International Computers Ltd (ICL). It is worth mentioning here that the programme for manufacturing computers was launched in India by IBM (India) Ltd in 1966. Some indigenous units have also been given licences for the manufacture of electronic components and computers. Particulr mention needs to be made of Electronic Computers (India) Ltd, a pioneering venture started by some of our industrialists and technicians to



"There is no such thing as the Indian rope-trick which is performed out in the open field with no technical aids"—Magician P.C. Sorkar.

set up a unit at Ghaziabad (UP) for the manufacture of computers. The Bharat Electronics Ltd—a public sector undertaking—has given considerable assistance to this industry by manufacturing some of the vital components needed by it.

The seventies will no doubt see the widespread use of computers in this country, and it follows that the demand for trained personnel is bound to increase sharply. Some enterprising persons have already correctly assessed the changing climate with the result that mushroom shops have cropped up in the metropolitan cities to train persons in the use of computers. Not all of them may be qualified or equipped to handle this complex task of training persons in computer techniques. It is good that IBM has decided to assume responsibility for starting training courses which will provide experience on machines (such as 1401) which can be put to use immediately. Certain problems relating to automation such as programming require a considerably large numbers of man-hours. As cost per man-hour in the USA and Europe is much higher than in this country, it will be possible for us to earn foreign exchange if we can handle these problems by building up properly trained personnel

Sugar in an Expansionist Phase

THE DATA relating to the actual production of sugar in 1968-69 are not available. But it is possible to say, with the provisional figures that have been published, that a record output of 35.60 lakh tonnes was achieved in spite of a decline in production of Uttar Pradesh and Bihar to 14.40 lakh tonnes from 17.46 lakh tonnes in 1965-66, which was the previous season in which the earlier record of 35.32 lakh tonnes was secured. This successful performance was due to the fact that Maharashtra, Andhra Pradesh, Tamil Nadu and Mysore produced between themselves as much as 18.50 lakh tonnes against 14.58 lakh tonnes three years earlier.

A large cane crop and the absence of any diversion for conversion into gur and khandsari were helpful in creating an abundance of sugar and pushing down sharply its price in the open market. As the government was feeling its way cautiously in the earlier months of last season and releasing only limited quantities of sugar it came about ultimately that the carry-over into the current season improved to the very high level of 12.55 lakh tonnes from 4.49 lakh tonnes at the end of 1967-68. The despatches of sugar from factories in 1968-69 including those for export were quite satisfactory, being 27.52 lakh tonnes. As there were shipments of about 90,000 tonnes to preferential overseas markets it is reasonable to presume that internal consumption was around 26.50 lakh tonnes, roughly the peak level touched in 1965-66. It may not be wrong to say that a larger quantity would have been absorbed by the home market if there had been liberal releases in the earlier months.

This gives rise to the question, what are the prospects for a further increase in consumption in the current season and how the phenomenal output of 42 lakh tonnes, that is likely to be recorded, will be marketed? With liberal releases of even 2.75 lakh tonnes monthly on an average, actual consumption in 1969-70 can easily be 33 lakh tonnes especially as there should have been a normal growth in consumption by five per cent yearly as compared to 1965-66, not to speak of the larger purchasing power of the agricultural income groups and extension of the sugar habit. But there is also abundant availability of gur and khandsari at cheaper prices and with the industry and trade still to change their methods of marketing in the interior areas, it would be a significant development if a breakthrough in consumption of refined sugar was established even with lower gur and khandsari prices and the intake of all the three sweetening agents improved substantially.

Some may well doubt whether the industry would be able to produce 42 lakh tonnes, 6½ lakh tonnes more than in the previous season. This spectacular target can be reached as even with Uttar Pradesh and Bihar repeating only their performance of 1965-66, an output of 38.50 lakh tonnes can be easily secured. In Maharashtra and the three southern states there will be additional capacity apart from the fact that the standing crop is reported to be in excellent condition. These four states will between themselves be accounting for 22 lakh tonnes in 1969-70 against 18.50 lakh tonnes in 1968-69. This task is not impossible of achievement as Tamil Nadu alone is expected to increase its output by over one lakh tonnes to 4.50 lakh tonnes. Many units have expanded their capacity. There will also be continuous crushing and it is feared that even cane tendered at the factory gate from the registered areas may not be fully absorbed

There is, therefore, no reason to doubt the ability of the industry to produce this huge quantity even with the existing capacity. There is no shortage of cane and the bottlenecks, if any, would emerge only if the godowns are choked and there was a crash in prices in the open market which made it uneconomical for the mills to continue crushing operations with the payment of minimum prices for cane. The Indian Sugar Mills Association is naturally worried about the marketing of huge quantities within the country and increasing exports without incurring heavy losses. Even assuming that despatches from the factories in respect of quotas for levy sugar and for free sale amounted to 33 lakh tonnes in 1969-70 there will be a surplus of nine lakh tonnes. This quantity, along with the carry-over of 12.55 lakh tonnes, will result in a heavy accumulation of stocks of 21.55 lakh tonnes at the end of September this year. It has, therefore, been suggested that apart from exports of 95,000 tonnes to the preferential markets in USA and UK the losses on which are borne by the industry, there should be additional exports of 2½ lakh tonnes with the government providing the necessary subsidies. But it is being estimated that there will be a loss of Rs 14 crores if attempts were made to fulfil the quota of 2½ lakh tonnes under the International Sugar Agreement. This loss of about Rs 600 per tonne will have to be incurred as sugar prices in the world markets are not remunerative and with the

high cost of cane and state taxes, the actual price realised on exports does not cover the cost of cane.

The government will not be suffering a net reduction in its revenues by absorbing fully the loss of Rs 14 crores as the revised estimates for 1969-70 and the budget estimates for 1970-71 are likely to secure for the exchequer as much as Rs 175 crores assuming that there will be no change in the *ad valorem* duty and there is not much difference between prices for levy sugar and those for free sale. In the budget estimates for 1969-70 the receipts under sugar excise duty had been placed at only Rs 54.06 crores. The Indian Sugar Mills Association is not, therefore wrong in saying that the additional revenues will be of the order of Rs 75 crores in two years and the government can bear fully the losses that will be sustained in exports and earn valuable foreign exchange amounting to Rs 15 crores. This would mean that exports of 3.50 lakh tonnes could be regularly effected, and even improved, if the losses could be minimised to some extent with the states agreeing to waive the revenues realised by them on sugar exports through the levy of a cess on cane crushed by mills. The states too will not be losers as their share of the excise duty will increase substantially and it would be advisable to help the industry to maintain output at a high level and enable growers to realise large amounts out of cane supplies.

Even if exports could be stepped up to 3[illegible] lakh tonnes and there was an increase in internal consumption to 33 lakh tonnes, there would still be a surplus of 5 lakh tonnes which would result in a further accumulation of stocks making the carry-over into the next season 18 lakh tonnes. The problem of maintaining such huge stocks will prove to be an intolerable burden on the industry. The financing of these stocks at a particular stage may also create unexpected difficulties for many sugar mills as with an output of 33 lakh tonnes in the first six months of 1969-70 as compared to 26 lakh tonnes in 1968-69 there can be an increase in stocks to a maximum level of 29 lakh tonnes by the end of March 1970. It is assumed that there will be releases on an average of 2.75 lakh tonnes every month during this period. If there were exports of one or two lakh tonnes stocks will still be 27 lakh tonnes which will require liberal assistance from the banking system. There may also have to be a reduction in margins against advances as otherwise there will be serious delays in payment of dues to cane growers and further crushing operations also may be jeopardised.

The government will, therefore, have to wake up to the realities of the situation and adopt new policies which will assure the maintenance of sugar production at high levels and result in the building up of a sizeable export trade. If it is decided that there should be no reduction in cane prices, the prices of sugar for controlled distribution will have to be suitably revised in order to offset the increase in costs that has taken place in recent years and the burden of interest charges. It would be far more advantageous to revise prices for levy sugar and ask the industry to maintain heavy stocks instead of creating a buffer pool which may result in new complications. It must also be borne in mind at the same time that no advantage will accrue to the industry on account of the release of quotas for free sale as a situation may arise in which open market prices may even be lower than those for controlled distribution. The government should be prepared to tackle a critical situation that may emerge in the sugar industry.

RIGHT TO PROPERTY

DR A. APPADORAI

ON DECEMBER 21, 1969, the following news item appeared in *The Hindustan Times* : Right to Property 'must go'. The "Young Turks" have called for removal of the right to property from the Fundamental Rights to end the obvious discrimination against the rural sector in favour of industrial and urban property.

A speaker in the (New) Congress Subjects Working Committee meeting at Bombay, on December 28, moved an amendment to the economic policy resolution "pleading for the abolition of property rights guaranteed in the Constitution".

Strong Reaction

A strong reaction against such radical ideas was voiced by Mr A. B. Vajpayee, President of the Jana Sangh, in his presidential address at the 16th session of the Jana Sangh at Patna on December 28, 1969. He said that the proposal to delete the right to property from the list of fundamental rights was extremely dangerous. Whatever the intentions of those who had mooted the suggestion it was sure to lead to forcible confiscation of property. It was the common man who was likely to be hurt most by such action. The Indian people must resolve to defend this right.

Whatever be the motive for the demand for removal of the right to property from the Fundamental Rights, the subject obviously merits public discussion. Radicalism expresses itself in various forms and a vigilant public in a democracy must go to the roots of proposals before they approve or disapprove of it.

What is the right to property? What is its rationale?

According to a well-known author, Noyes, "Property is any protected right or a bundle of rights (interest or thing) with direct or indirect regard to any external object (i.e. other than the person himself) which is material or quasi-material and which society permits to be either private or public." It is connoted by the legal concepts of occupying, possessing or using. The right is enforced by excluding entry or interference by a person not legally entitled. The same distinguished author explains that "all physical manifestations capable of being detected, localised and identified can be the objects of property. Land, houses, jewellery, furniture, money are obvious forms of such physical manifestations. In modern civilized societies only one exception has been made among these physical objects which are not legally appropriable as property, viz. human beings themselves (after the abolition of slavery)."

As Justice M. Hidayatullah points out in his now famous judgment in the Golaknath case (1967) the right to property, in its primordial meaning, involved the acquisition of a free object by possession and conversion of this possession into ownership by the protection of the state or the ability to exclude interference. At first, the strong man took what he could and kept it as long as he could from others. One could call anything his own so long as a stronger man did not take it away from him. The rise of settled governments gave protection to the right of property, and the notion also grew that not only a person could acquire and use property but also bequeath it to his children.

Twofold Limitations

As indicated earlier, the right to property is held to include the right to the unhampered use of one's gains, whether land or goods, the right of exclusive use, the right to destroy and the right to alienate by gift or exchange during life and the right to bequeath. But those who want to abolish the right to property conveniently suppress one basic fact of history: the history of the right to property has been the history of the limitations on its use. These limitations arise from the twofold aspect of property, individual and social. As the Papal Encyclical of 1931 put it well: "The right to own private property has been given to man by nature, or rather by the Creator Himself, both in order that individuals may be able to provide for their own needs and those of their families, and also that by means of it the goods which the Creator has destined for the whole human race may truly serve this purpose."

It follows from this that men must take into account in this matter not only their own advantage but also the common good. To define in detail the necessary limitations on the right to property is an important function of government. Thus all modern states have laws regulating the transfer of property in order to ensure that the transfer is made between persons possessing at the time mature reason, without coercion and without wilful or careless misrepresentation. Similarly they regulate inheritance and bequests in order to see that reasonable expectations on the part of the members of a family are not upset and, generally, to see that the social virtues of thrift and industry are not allowed to decline.

Regulatory Factors

They also regulate its use in a variety of ways. A houseowner has to conform to regulations regarding house construction; he cannot refuse to connect his house with the underground sewage, and so on.

Why is it then the proposal for the abolition of the right is made? The answer is, it is considered, erroneously, that without its abolition equality is impossible. The error is twofold: first equality is defined in absolute terms—an idea which historical experience shows to be an impossibility. Even if we have a clean slate to start with, men's differences in need and capacity are too great to enable equality of wealth to be maintained for any length of time.

"Render possessions ever so equal" said Hume, "men's different degrees of art, care, and industry will immediately break that equality. Or if you check these virtues, you reduce society to the most extreme indulgence."

Equality can only be, in practical terms, a relative concept.

Second, it is feared that vested interests will make the reduction of economic inequalities impossible and achieve relative equality. It is sufficient to say that the economic history during the last one hundred years in Britain, the USA, Sweden, France and elsewhere—specially since democracy developed—belies this fear. For that history shows conclusively that democracy develops from the political field to the eco-

nomic one and political freedom is used to achieve a better distribution of wealth and to reduce economic inequalities. In all these countries, the middle classes have grown in numbers and indeed they are larger in number than either the rich or the poor. There is no reason why in developing countries too the same process should not be repeated, provided democracy is given a chance to work.

Historical experience justifies the conclusion that the right to property is based on the need for the development of personality. Even a socialist writer like H J. Laski concedes that "if property must be possessed in order that a man may be his best self, the existence of such a right is clear".

The rationale of the right to property can be stated briefly in some such form as the following : (a) The right to own private property is derived from human nature, not from man and the state has by no means the right to abolish it but only to control its use: (b) men in general need an incentive to labour; the power to acquire property supplies such an incentive; (c) property is the return made to the individual for effort; (d) it is the nurse of virtues essential to society, such as love of one's family and inventiveness; and (e) historically speaking, progressive societies have been those built upon the regime of private property.

Common Sense Prevails

Some of the readers of this journal, at least, will remember that it is considerations of this kind that led our Constituent Assembly to make provision for protection of the right and for the payment of just compensation if it is acquired by the state for public use. The discussions were long and animated; common sense ultimately prevailed and Article 31 is the result. It states *inter alia* that no person shall be deprived of his property save by authority of law.

"No property shall be compulsorily acquired or requisitioned save for a public purpose and save by authority of a law which provides for compensation for the property so acquired or requisitioned and either fixes the amount of the compensation or specifies the principles on which, and the manner in which the compensation is to be determined and given; and no such law shall be called in question in any court on the ground that the compensation provided by that law is not adequate."

In commending the draft Nehru made a historic speech in the Constituent Assembly on September 10, 1949. He said that there were two approaches—one from the point of view of the individual's right to property and the other from that of the community's interest or right in that property; but the two approaches did not necessarily conflict with each other. "If we have to take the property, if the state so wills, we have to see that fair and equitable compensation is given. . . . No community should injure and invade the rights of the individual unless it be for the most urgent and important reasons".

It is interesting, finally, to note that a limited right to private property is also recognized in the Soviet Union as may be seen from Article 10 of its constitution : "The right of personal property of citizens in their income from work and in their savings, in their dwelling house and auxiliary husbandry, in household articles and utensils and in articles for personal use and comfort, as well as the right of inheritance of personal property of citizens, is protected by law."

AEC's Role Must be Reappraised

V. R. RAGHAVAN, ECAFE

IN HIS article, "Nuclear Power Planning in India" by Mr R. L. M. Patil appearing on pages 434-436 of *Eastern Economist* of September 5, 1969, the author has attempted to bring out the need and urgency of India pursuing a vigorous programme of atomic power development. There can be no difference of opinion in this regard among knowledgeable and thinking people.

He has made an analysis of the present trends of nuclear power installations in various developed countries to emphasize the important future role of this form of power. His case would have been much stronger had he taken recourse to recent data rather than to the estimate made at the time of the third conference on the peaceful uses of atomic energy held in 1964. Data given in Table I below will clearly show that the rate of growth of nuclear power plant installations is significantly higher than that shown in the article under reference.

It will be seen from this table that between 1966 and 1973, the capacity of nuclear power plants in all OECD countries will increase from 6.74 million kW to 73 million kW (compare the figures of 4 2 million kW in 1965 and 20.8 MW in 1970, excluding India given in the article under reference). In Europe and the United States, increasing proportion of new power plant installations are nuclear power sta-

TABLE I

CAPACITY OF POWER PLANTS OF O.E.C.D. COUNTRIES (MW)

Year		1966	1967	1968	1969	1970	1973
European OECD	Total	211.8	227.4	246.2	263.5	283.8	338.8
	Nuclear	4.5	5.5	7.3	8.5	11.2	18.7
Canada	Total	30.8	33.0	35 6	38.2	40.6	49.8
	Nuclear	0.2	0.2	0.2	0.2	0.2	2.0
USA	Total	266 8	285.9	313.4	333.2	355.9	439.0
	Nuclear	1.9	2.4	3.8	6.7	13.1	49.8
Japan	Total	43.4	49.2	52.2	57.9	64.0	79.6
	Nuclear	0.14	0.2	0.2	0.5	1.2	2.5
Total OECD	Total	552.8	595.5	647.4	692.8	744.3	907.2
	Nuclear	6.74	8.3	11.5	15.9	25.7	73.0

Source : The Electricity Supply Industry—19th Enquiry (1969)—OECD.

tions. Nearly 30 per cent in 1969-70 and 44 per cent in 1970-73 of all new power plants in the United States will be nuclear power plants. According to estimates of IAEA, the total world capacity of nuclear power plants will be 130 million kW as against 80 MW given in the article and, by 1980, this figure is expected to be 250 million kW.

TABLE II

RECENT ORDERS BY USA FOR NUCLEAR POWER PLANTS

	No. of stations	Capacity (MW)
1966	21	16,618
1967	31	25,570
1968	17	15,555

Reasons for reduction in 1968 :

(1) Delays in completion of earlier orders.

(2) Suppliers' order books are full.

(3) Escalation of prices.

Source : *Atom* : July 1969.

WORLD FORECASTS OF NUCLEAR PLANTS

1975	130,000 MWe (IAEA)
1980	250,000 MWe (*Atom* UK).

In the long-term national interest, we cannot afford to lag behind in the development and use of nuclear power. Having built up the necessary organizational infrastructure in this new branch of science and technology, it would indeed be a pity, if progress is slowed down owing to lack of adequate financial resources. Science and technology, presently and in the coming years, will largely centre around atomic energy, electronics (including computers etc.) and space research. Despite our meagre resources, we should strive to maintain a leading position in these fields. In so far as nuclear power is concerned, it is already competitive with conventional power and should not be regarded as too heavy a burden.

Having said that, I feel that there is an urgent need to review certain general and organizational aspects of the electric power industry. The programme of nuclear power in India has been the exclusive preserve of the Department of Atomic Energy; perhaps, it will not be an exaggeration to say that the Central Water and Power Commission (India's top organization concerned with power development) and the Department of Atomic Energy are "not on speaking terms". From every point of view this is not in our national interest.

It is a short-sighted policy for the Atomic Energy Department to act as the sole supplier and for the electric power industry as the mere purchaser of nuclear power as though it were distinct from conventional power. It is of utmost importance that the participation in nuclear power development activities is broadened and the CWPC as well as the state electricity boards are closely associated with nuclear power programmes. Perhaps, the fact that the Maharashtra State Electricity Board has delayed the offtake of its quantum of power from Tarapur can be indirectly traced to the absence of collaboration between Atomic Energy Department and electricity boards at technical and managerial levels.

Excellent Co-operation

In the United Kingdom, it is true that the Atomic Energy Commission developed the early installations including the Calder Hall units. The objective at that time was *not* power production, but plutonium. However, all the later stations in the United Kingdom are being built and operated by the Central Electricity Generating Board. There is, as far as we are able to see, excellent co-operation and joint working between the Central Electricity Generating Board, Atomic Energy Commission and electrical manufacturing industry. Similarly, in the United States the public utilities are the ones engaged in the construction of nuclear power stations. The atomic energy commissions in these countries concern themselves in research and development work and provide guidance to the utility industry when necessary.

It is hardly necessary to explain that such broad-based effort would contribute to rapid development. Let not individual agencies in India shut themselves up in their own shells and let us encourage co-operation and joint working. Close association between the Atomic Energy Department and the CWPC will, undoubtedly, promote cross-fertilization of ideas and serve larger national interest.

It is also pertinent to refer to the present relationship between the CWPC and the state electricity boards, which are none too conducive to development. To an extent, this lack of *rapport* arises from the centre-state relations and is therefore a political problem. Nevertheless, engineers and managers concerned with the electric power industry could and should take the initiative and endeavour to work out a co-ordinated national power programme.

There is the controversy between the Planning Commission and the Ministry of Irrigation and Power as regards the allocations under power development and the anticipated needs of installed capacity in the fourth five year Plan. For several years now, CWPC and other agencies have been systematically and continually working on load demand surveys; and the methodology and principles of load forecasting are certainly well established. It is therefore a matter of surprise that we are unable to agree on our future requirements of power. These conflicts can be easily resolved, if the CWPC, electricity boards and concerned agencies including major consumers learn to work together.

Need for Efficiency

While adequate steps should be taken to augment the capacity of power systems to meet future power demands, much benefits can be immediately realized, if urgent consideration is given to the scope and possibilities of improving the efficiency and economics of the existing stations and networks. What I have in mind is the examination-in-depth of such questions as: (i) Is it not possible to reduce the present margin between installed capacity and the maximum demand so as to make more effective use of the available capacity? (ii) Are costs incurred in the construction of power plants and facilities reasonable? (iii) Are we deriving the maximum possible benefits by integrated operation, wherever power plants are interconnected? (iv) Fuel economy and thermal efficiency of power stations; (v) What should be done to the present relatively high energy losses in transmission and distribution systems? (vi) Management of power systems to ensure maximum economy.

The importance and urgency of these studies will be apparent, if it is pointed out that many of state electricity boards have, for years, been working in deficit. The usual explanation that the losses are attributable to the extensive rural electrification facilities established by the boards may not stand detailed scrutiny and it is more likely a kind of self-deception. Even if the losses

arise from rural electrification, it would be a valuable exercise to ascertain precisely such losses and those arising from other causes so that the overall results of working of the state electricity boards can be correctly judged.

The experience, world over, is that electric power industry is always a safe investment. Provided it is managed wisely, there is no risk of incurring losses. Some of the developing countries in the ECAFE region are operating their power systems very well. They are not only able to meet all their capital and working expenses, but are also able to earn a sizeable surplus which they use for further augmentation of capacity. With the manpower and talent resources available to India, there is no conceivable reason that she should not be able to do better than any other country, developing or otherwise.

Econometrics Has a Great Future

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IN LATE October this year two European economists were awarded the first Nobel Prize in Economics. Since the Nobel Prize was instituted in 1901 Economics has been the only new field added to the awards. What an honour for the science? Ragnar Frisch of Norway and Jan Tinbergen of the Netherlands shared the $72,700 prize for developing the new science of Econometrics. Economics today has become the most advanced and most sophisticated of all the social sciences. And the great advance the science has made in the past four decades reflects the powers of theoretical analysis in three related areas: explanation, prediction and control of economic phenomena.

All sciences try to explain phenomena in their particular fields; economics attempts to explain economic phenomena. And, by economic phenomena are meant such things as: unemployment, poverty, inflation, economic growth and development, inequalities in income distribution as among individuals and geographic regions, balance of payments disequilibria, etc.

Satisfactory Explanation

Is economic theory capable of offering reasonably satisfactory explanations to these diverse problems? To be more specific, can economics explain the causes of unemployment? Has the science developed theoretical tools capable of analyzing the major determinants of inter-personal and inter-regional income differences? Do economists know why international economic arrangements break down? Why is it some parts of the world, particularly the industrially advanced countries of the west, have very high per capita incomes while most of Asia, Africa and Latin America remain relatively poor? What are the factors which explain why the capitalist economies of the western world have been continually plagued by economic depressions during the past 150 years? Why is it that centrally planned economies like those of the Soviet Union have been able to achieve high rates of growth at least in the early years of planning? What accounts for the fact that India, in spite of almost two decades of central planning, has not been able to make much headway in raising per capita incomes to any significant extent? These and myriad other questions of vital interest fall within the realm of economics. In all these areas, though economics cannot come up with complete answers, rational explanations can be offered.

Predicting the Future

If economic phenomena can be explained, the second task of theory is to be able to predict the future course of economic events with a reasonable degree of accuracy. In this area, too, great advances have been made during the past few decades. One of the worst maladies of capitalism has been the recurring booms and depressions at least in the industrially advanced western hemisphere. These economic fluctuations have had their impact on almost every non-socialist country in the world. This is proof of the fact that practically no economy is immune to what is happening in the rest of the world. What are the causes of these violent fluctuations in economic activity? What are the cures? Can economists predict in advance whether there will be a recession, depression or an inflation? If they can, how accurate are the predictions likely to be? The tremendous progress made in this regard is attested to by the fact that the American economy, the most advanced in the world, has not had a major depression since the end of the second world war.

Economists in the United States are continually improving their tools of analysis. After examining the behaviour of literally hundreds of economic time series data over many decades, they have selected eight of the most reliable ones as leading indicators of future course of economic events. These leading indicators such as business failures, industrial common stock price index, new orders for durable goods, residential, commercial, and industrial building contracts etc, are being watched carefully since it is they which start downturn much sooner than coincident indicators like unemployment and corporate profits or such lagging indicators as personal income and sales by retail stores. Forecasts of business activity, though not very accurate, are quite possible within some margin of error. Economics has, thus, come a long way since the 1930s when no such forecasts were possible.

Corrective Steps

Thirdly, if economic phenomena can be explained and if the future course of economic events can be predicted, then, the government ought to be able to take corrective steps to control undesirable trends if the economy is drifting in such directions. To give but one specific instance: suppose there is a threat of inflation. Despite differences of opinion among economists as to specific details of what causes inflation, there is substantial agreement on the general contributing factors. For example money supply is a crucial variable. No respectable economist would deny it. Therefore, regulation of money supply by the government or monetary authority is a necessary corrective step to control inflation. Economists can point it out. Whether the required policy will be followed or not depends on a whole host of extra-economic considerations.

Similarly, there is substantial agreement among economists as to the desirability of free, unrestricted inter-regional and international trade. Economists can, again, point out the steps to free international trade from artificial barriers. Whether the desirable policy will be followed, in regard to controlling inflation or freedom of trade, depends on the willingness of statesmen and administrators and also of the general public. The essential objective of the foregoing discussion was to show how rapidly

economic science has progressed in the past few years.

It was mentioned that the very significant advance economics was able to make recently was due to the considerable refinement of theoretical analysis. But equally important is the fact of the development of mathematical economics and the new science of econometrics. The latter is new in the sense that it was developed in the thirties of this century. A science like economics has limitations; and they are very severe limitations too. Today, physical sciences are the most advanced; then come biological sciences; and lastly social sciences.

Partial Explanation

One important reason for this phenomenon may be that the best brains are applying themselves to physical and biological sciences. But that is only a partial explanation. Many great men of science are sure to find social sciences intellectually unchallenging. But, in another sense, social sciences are the most difficult pursuits. There is an interesting anecdote related in Sir Roy Harrod's biography of John Maynard Keynes, the most famous economist of this century. Keynes was having dinner with Prof. Max Planck, the genius who was responsible for the development of quantum mechanics. Planck told Keynes that he once considered going into economics but gave up the idea because economics was too difficult. Keynes repeated the story to a friend in Cambridge, England. That was strange, the friend said, because some days, ago, Bertrand Russel had hold him that he did not take up the study of economics because it was too easy. Obviously, what Planck meant was not that economics was a difficult subject to master.

The difficulty with regard to economics as with other social sciences arises from the fact it can, by its very nature, never be an exact science Physical sciences can be exact because there, the scientist is concerned with inanimate matter whose behaviour under different circumstances can be analyzed under controlled conditions. Biological sciences are more difficult because there the scientist is dealing with live matter whose behaviour is far more complex. Still, controlled experiments are possible. In social sciences, the scientist is concerned with human beings whose behaviour under different circumstances and under the same circumstances but at different times is extremely difficult to predict. And, controlled experiments are virtually impossible. This is what makes social sciences, among them economics, extremely difficult.

Another important reason why physical sciences and, to a lesser extent, biological sciences have been able to develop fast is the application of mathematical and statistical techniques. In social sciences, here again, the scope is much more limited. Of late, however, considerable progress has been made in economics in this regard. Therefore, along with theoretical analysis, application of mathematical and statistical procedures has been responsible for the rapid progress of economics.

The new science of Econometrics deals with the quantitative aspects of economics. Most of the economic magnitudes are quantifiable. For instance, a demand curve shows the relation between the price of a commodity and the quantity bought per unit time, other things being equal. Both price and quantity are measurable magnitudes. Similarly, a consumption function is supposed to show a functional relation between disposable incomes and consumption expenditures. Again, disposable income and consumption expenditures are measurable quantities. Examples can be multiplied.

Mathematical Language

Economic theory, by deduction hypothesizes that the quantity of a commodity bought per unit time varies inversely with its price. And that consumer expenditure varies directly with disposable income. Here, as in many other instances, there are dependent and independent variables; and there is supposed to exist a functional relation between them. This makes it possible to formulate economic theory in mathematical language. For example, if it is desired to consider the influence of several independent variables on the quantity of a commodity bought per unit time, mathamatical language helps. Then, the dependent variable, quantity bought can be treated as a function of the price of a commodity, prices of related commodities, and disposable incomes. Such mathematical formulations are possible in very many cases. Once economic theory is thus formulated in mathematical terms, statistical procedures can be applied.

The techniques of multiple regression make it possible to analyze the relative contribution of the different independent variablesi n the determination of the dependent variable. The various steps involved in an econometric study are . selection of a problem; collection of data relavant to the analysis of the problem; formulation of a hypothesis; setting up the statistical equations; estimation of numerical coefficients of economic magnitudes such as demand and supply elasticities, marginal propensity to consume, etc; and finally, test of the hypothesis.

Econometrics is thus the application of mathematical and statistical procedures to solving economic problems. Therefore, the new science is really applied economics. Econometrics, however, is different from mathematical economics. The latter is economic theory expressed in mathematical language There is no essential difference between mathematical and non-mathematical economics.

Econometrics is becoming increasingly important because of its great potential in economic problem-solving. Numerous studies have been made using econometric techniques in various countries. One of the well-known studies is the econometric model of the United States by the American econometrician, L. R. Klein. Jan Tinbergen, the Nobel Laureate, has been concentrating on studies of under-developed economies recently and has helped set up a large number of economic institutes in different parts of the world. Econometrics is a field that has great promise particularly in the formulation of government policy; for under-developed economies, adopting development planning, the contributions the new science can make are of great practical importance.

Adult age has been reduced to eighteen in the UK.—Report.

WINDOW ON THE WORLD

LIBERALISM IN FRANCE

JOSSLEYN HENNESSY

"WEEK OF LIBERAL THOUGHT"

LONDON :

A "WEEK of Liberal Thought" was recently held in France for the second year running. That the nation-wide publicity given to the first Week, held in 1968, was by no means universally friendly was significant evidence that even those hostile to Liberal thought recognised the importance of the new Week.

This year criticism had largely died away and the Week registered an unqualified success.

The President of the French Association of Economic Progress, M. Luc Bourcier de Carbon, organiser of the Week, used in years gone by to regret that "the liberals no longer have a public". There is, however, now a clear revival of economic Liberalism in France, and last year's inauguration of the Week of Liberal Thought took place at an opportune moment when the realities of economic development had begun to penetrate the realm of ideas a diametrically opposed reversal of the trend, analogous in its breadth and importance which followed the world crisis in the 1930s.

An Illusion

In the 1930s, Liberal thought seemed doomed Planning, dirigisme, collectivism, and socialism in general, were on the up and up The trend of the 1930s expressed a philosophy which sought to take away from individual men, on the pretext of making them more free, as much of their individual responsibilities and initiative as possible. Decision-making was handed over to "centres of social action" almost inevitably run by the state and the individual was supposed, in his capacity as a citizen and elector, to participate in "social decision-making", which was, of course, an illusion.

Today, it is the collective systems which are wavering, both in the countries in which everything was collectivised and in the so-called "mixed economies" where some freedom of movement remained to the entrepreneur. The collective systems have, over the decades, demonstrated their inefficiency not only in production but also in distribution, i.e. the sphere in which socialists found the supreme justification of their creed. These socialist systems have not achieved for the workers higher standards of living, nor better working conditions, nor greater individual and civic freedom.

At the same time while public opinion in all countries is conscious of this setback to collectivism, and while the facts reveal rising interest in Liberal forms of economic and social action, the ideology of Liberalism has not yet caught up with the current situation. Of course economic thought is well abreast of the developing trend towards Liberalism, but it has hardly penetrated public opinion or the thinking of the man in the street, of whose views Lenin recognised the importance when he proclaimed that ideas became material forces when the masses absorb them.

Lack of Public Contact

To some extent the Liberals must be blamed for this lag in public appreciation of the evolution of ideas, because they have, in general, written for specialists, and have lacked publicists able to interpret complicated ideas in popular language. The leaders of the Liberal revival of the second half of the twentieth century have also paid insufficient attention to the non-economic aspects of Liberal thought, i.e. the social, ethical, and political aspects to which public opinion is particularly sensitive today, especially among the rising generations.

The organisers of the French Week of Liberal Thought stress that the new industrial revolution, to which France is committed by the pressure of realities, cannot be brought to fruition as long as there is widespread intellectual suspicion, indeed hostility, towards industry and commerce, which are attacked as "citadels of profiteering and selfishness."

I have only space to run over some of the more outstanding points made by the numerous speakers at the Week's conference, which was remarkable for the diversity of its speakers, some well-known, others making their debuts in public life. While some were veterans of Liberal thought, the presence of many others in their late twenties or early thirties showed that the ranks will continue to be replenished when the veterans retire. The French Academy was represented by the Chancellor, M. Jacques Rueff, the Grand Old Man of French Liberal thought, who presided over the third session and by Gaston Leduc, Professor of Law of the University of Paris, who presided over the fifth.

Among European leaders present were ambassador Guido Colonna, Italian member of the Commission of the European Economic Community, and Robert Marjolin, for many years Vice-President of the Commission. Higher education was represented by Emile Claarsen of the University of Cologne, Henri Guitton of the Faculty of Law and Political Economy of Paris, Maurice Allais, Professor of the great French School of Mining, and many others of international distinction. Representation of the Liberal professions included Albert Brunois, leader of the French bar, Francois Lhermitte, Professor of Psychiatry, Dr Savy, President of the National Conference of Medicine; Andre Aumonier, representing the European Foundation on Economics; and not least a number of outstanding industrial leaders including Louis de Vaux of Nickel, Pierre de Calan of Babcock-Atlantic, and Antre Benard of French Shell.

Stress on Moral Aspect

The programme of this year's Week concentrated on the moral, social, and political aspects of Liberal thought, with special reference to European integration and to the problems of economic growth.

No reasonable man, whatever his political faith, any longer denies the efficiency of Liberal methods in production and technological progress. On the other hand, if recognition that Liberal economies are efficient in production is general, critics attack the way in which they ensure the distribution of wealth (this alleged failure is what is traditionally known as the "social question") and the legitimacy of the psychological motives to which free economics appeal in order to stimulate economic activity (this is the "moral question" which in recent years has come to the fore]

in controversy, which suggests that the importance attached to the social question has receded).

The critics go on to assert that the Liberals have condemned the state to *laisser faire* and *laisser passer*, i.e. to confine itself to strictly political questions without any intervention in economic life, which is, in fact, a caricature of what the doctrinaires of the Manchester School themselves maintained. The Liberals are not anarchists; they have never denied the necessity of state action.

II
HIGHLIGHTS OF THE CONFERENCE

What follows are a number of outstanding points made by speakers at the conference, but I have not given their names since I doubt that they will mean anything to readers outside Europe.

It is a fact that for a long time the Liberals seemed disconcerted, even convinced, by the criticisms of capitalism made in the name of "social justice". They got to the point of wondering if the market economy did not in fact mean the "exploitation of man by man" and working class poverty. They seemed overcome by remorse for the terrible conditions in which the masses lived in the initial stages of the industrial revolution. They seemed to forget that the Liberals of those days found themselves confronted with a new problem, and it is self-evident that the solution of a problem cannot precede its emergence. In those countries where the communists have been in power, far from having done better than the free economies, they have done worse. The worst sufferings of the working classes in Britain or France never equalled those inflicted on the whole Russian people for forty years, at the end of which the level of real wages remained substantially below that of French workers today, whose standards themselves are not among the highest in the non-communist world.

It is not true that capitalism inevitably maintains working class poverty and obeys, as Marx claimed, "the law of the absolute pauperisation of the proletariat", which the more devoted of his disciples maintained until, comparatively recently, they were compelled to bow to the facts of the capitalist reality flourishing outside their frontiers. By creating mass consumption and practising Henry Ford's policy of high wages, capitalism demonstrated the falsity of Marx's prophecy. The most obvious example is that whereas before World War I ownership of a car was limited to the "wealthy", today car ownership among the working masses of the west is on such a scale that it has created the new problem of traffic congestion!

The market economy is the only one which allows wage earners to defend the price of their services by organising a labour market with the aid of trade unions. Where market economies have disappeared, trade unions do not defend workers; they police them in the interests of the state. While it is true that some trade unions uphold ideologies which often lead them in directions contrary to their real interests, it is nevertheless a fact that free enterprise and free trade unionism are complementary in a free economy.

Best Conditions

The social question ultimately is concerned with growth. There cannot be more well-being if there are not more goods and services, and it is the market economy, based on profit and competition, which creates the best conditions for more. French Liberals do not deny that it may be thereafter necessary to intervene to ensure a more equitable distribution of the wealth produced.

Catholics have been suspicious of economic Liberalism from the viewpoint of ethics. This is because many Catholic leaders have never studied the doctrines of economic Liberalism, of which they have, as it were, read the headlines without bothering to study the texts.

The conflict between the Church and Liberalism arises because many Catholics have approached economic problems solely from the angle of their social repercussions, seeking to care symptoms without studying the mechanisms which produced them.

Speakers at the Liberal Week maintained that reconciliation between the Church and Liberalism was possible providing that the Liberals explain their philosophy, showing that it accepts Christian values, and providing that Catholics accept economic laws. That Catholics should wish to assess economic aims and behaviour is normal, but their criticisms will carry no weight unless they are based on real understanding and study of economic science.

Is Liberalism to be condemned because it makes profit the principal motivating force of economic activity? Without in any way depreciating the role of profit, it should be noted that the entrepreneur is inspired by many other motives, not least by the satisfaction of feeling himself the leader of a team to which he is linked by many links other than material calculation, and by the satisfaction of knowing that he is providing innumerable employees with opportunities of fulfilling their capabilities.

"Immoral" profits have no social utility; they emerge from abuses which it is the state's duty to counter, and it is indeed significant that these abuses tend to flourish in the economic sectors under state control more than in others. It is abuses such as these to which the Yugoslav Djilas referred in describing the perquisites open to the "new class" of state employees, which amount to an exploitation all the more odious in that the individual under these regimes is deprived of all the individual rights of a citizen.

III
THE LIBERAL PROFESSIONS

Those who follow the Liberal professions work perhaps more than most others more directly in the service of their fellows. They are in immediate personal contact with those whom they serve. The doctor and the barrister work to earn fees. Their existence does not depend essentially on a salary. I must here interject that this is a French viewpoint, still basically true of contemporary French society, but it is rapidly ceasing to be true of British doctors, who are essentially salaried state employees. Private fees make up a decreasing part of their income. With the increasing spread of subsidised legal aid, the trend in the legal profession is also set towards ultimate dependence on the state. In France, however, the incomes of doctors and barristers still come from their patients and clients from whom they expect payment for the services which they render. These professions are, be it noted, competitive because the barrister's client, like the doctor's patient, is free to choose whom he will.

The professions do not fail in their humanitarian vocation because they are

paid for their work. On the contrary, they prove the possibility of the co-existence of moral motives which some critics claim that money payments prevent. Not only do money payments not prevent ethical conduct combined with economic services, but they are complementary, because he confidence of the client in his barrister or his doctor is based on the two simultaneous facts (a) that he freely chooses his adviser and (b) that he pays for the services rendered.

That is why the conversion of the bar into a civil service would be the end of justice, and of medicine would slow down the advance of medical science. That is why it is wrong that social security should help to make the patient think of himself as an aided person (or in old fashioned pre-welfare terms a "pauper").

What I find so remarkable about these views is that they emanate from France, the country hitherto regarded as the leader in Europe of state intervention in general and the spread of social security in particular. The fears expressed in the French Week for the future of the Liberal professions if brought under state control have already materialised to an appreciable extent in the United Kingdom.

Role of the State

Liberals, even those of the Manchester School, have never sought to prohibit state intervention in economic life. What they sought to define were the *means* of intervention, and to prevent the state from *monopolising* the direction of all economic activity.

The state must concern itself with the explosions of production which occur periodically in history, because they cause suffering by dislocating the working of the existing social order, but the state must not counter sufferings by impeding economic expansion, especially today when virtually every country in the world seeks to expand the consumption of the masses.

Inflation is robbery, the creation out of nothing, for the benefit of minorities, of buying power, which does not represent production, and which allows those who receive it to obtain a share of national production without paying for it, which can obviously only be done at the expense of others. The state must therefore stop inflation rather than, as so often today, itself seek to benefit by it.

Under the pressure of realities the French national Plan is being modified more and more in accordance with the pressures of a market economy open to domestic and foreign competition. The nature of French planning has therefore got to be changed. The Plan should throw light on the consequences and costs of the choices made, it should release hidden potentialities by steering enterprises towards the rewards and risks of economic freedom, which serve to inform the people in their capacities as economic agents by diffusing statistical and other information. This should reduce the intellectual and psychological resistances to change, which are the basic obstacle to industrial expansion.

M. Jacques Rueff, Chancellor of the French Academy, presided over the debates of the third evening organised in association with the European Foundation on Economics. M. Guido Colonna, Italian representative in the EEC Commission, demonstrated that in accordance with the freest interpretation of contemporary Liberalism, there was no contradiction in seeking to make the economies of the Six more free, more liberal, while subjecting them to a single industrial policy. To create the conditions of freedom is not inimical to freedom, and economic freedom in a united Europe will be none the less authentic for having come about through state intervention.

Robert Marjolin, former vice-president of the EEC Commission, emphasised that state intervention was necessary to come with the stresses of change, because European unity already entails, and will continue to entail, innumerable changes, notably in agriculture, but these changes should not scare Liberals who, by definition, are the enemies of conservatism.

Congressman Passman Vs Indian Rats

H. R. VOHRA

WASHINGTON:

INDIA is the biggest recipient of US aid despite Congressman Passman, not because of him. Nothing ever passes his scrutiny. He takes his job as Chairman of the Appropriations Subcommittee dealing with aid seriously, some would say too seriously. He combs the aid bill with his miscrocopic mind inflating each country's faults while ignoring its accomplishments. He revels in this distorted view of things.

Looking at India through Mr Passman's eyes can be quite amusing. I confess, I could not help laughing reading through the subcommittee's hearings. They always are almost a one-man show. He does the questioning virtually unaided. How one man can ask so many questions which, with answers, fill two volumes of hearings covering 2,814 pages is not easy to comprehend. And he does it every year.

Since India is big, and not always a friendly beneficiary of US munificence, it receives his proportionate attention. This year was no exception. What caught his eyes was the Indian rat. He was after the rodent with a sledge hammer. If he had his way, he would close all "spigots" (as he contemptuously calls them) of aid to India except one. This would be directed to extermination of rats in India.

What provoked his ire against Indian rats is an estimate of the US Agency for International Development that "it would take a train 2,800 miles long to haul the grain that Indian rats eat in one year."

Whether the estimate is right or wrong is beside the point. It happens to be official and the way it is phrased boggled Mr Passman's frail mind. So if one is asked why aid to India this year was designed to shrink under Mr Passman's dispensation, rats are one reason and an important one.

He never conceals his aim. He said frankly: I think you could afford to stop every type of aid programme for India and go in there with really a crash programme, and if rats are eating sufficient food to fill a train 2,800 miles long, it is time to kill some rats.

Having made this profound observation, he asked an official witness (Mr Shriver) if he would quarrel with him on that ground. "No", he said meekly. So there we are. The US Agency for International Development agrees that what India needs more than

anything else is a crash rat extermination programme.

Having gained this confession, Mr Passman rubbed in his recipe on his official witnesses. He said : "This is one place where we may earmark funds, that no less than such and such an amount in this appropriation shall be used for rat extermination. You can see some merit in this thing. You will never get top of this thing, until you get to the root of this (rat) trouble."

This was the climax to a long interrogation in which Indian rats came in for a gruelling treatment of which only Mr Passman is capable. His official witnesses, particularly Mr Maurice J. Williams, Assistant Administrator, Bureau for Near East and South Asia, warded some of his blows but were badly bruised in the process.

Vain Bid

In vain, Mr Williams pointed out that rats were a worldwide problem. Mr Passman, instead, reread the AID statement on rats for the sake of emphasis. Then he pointedly asked: "Why dont you people start a rat programme in India?"

Mr Williams said that AID had a rat programme in India. Mr Passman impatiently sprung back: "Tell us about it." This is what followed:

Mr Williams. We have an adviser working with the Indian government. Standards have been set for. . .

Mr Passman. Where in the project book can we find this rat programme. Do the monkeys and livestock devour as much grain as the rats?

Mr Williams. Do you know, Mr Chairman. . .

Mr Passman. I am asking a question. If this is your statement, how much grain do the monkeys and livestock eat or destroy?

Mr Williams. I dont know, Mr Chairman.

Mr Passman. Where is this rat programme?

Mr Williams. Page 49 sir. At the top of the second column.

"One direct hire rodent control speciallist."

Mr Passman. One direct hire control specialist in all of India, where it would take a train 2,800 miles long to haul the grain that the rats eat in one year !

Mr Williams. On the preceding page, Mr Chairman, page 48, it says, "If the government develops firm plans, additional US advisers will be provided to assist in a countrywide education and demonstration programme "

Mr Passman. You are just as fine a man as you can be.

Mr Williams (continuing). "On rodent control."

Mr Passman. You are saying, "If they do certain things. Now you have one specialist isn't that right?

Mr Williams. Yes, Sir, helping them develop national guidelines.

Mr Passman. I want you to tell me if you have in all of India just one rodent control specialist?

Mr Williams. With the AID mission, yes, sir.

Mr Passman. Yet AID admits that the rats will eat up sufficient grain to make a train 2,800 miles long.

Serious Dialogue

This deadly serious dialogue about live rats continued unabated for another 20 minutes or more until Mr Passman forced his witnesses to perform for his benefit a mathematical feat. They gallantly sat down to calculate, barely hiding their chagrin, how much wheat one can pack in a normal freight car? And how many cars there would be in a train 2,800 miles long? And how much wheat, therefore, would a train accommodate? And what would be the value of the trainload?

The answers were:

2,800 miles at 5,280 feet equals 14,784,000 feet.

14,784,000 feet at 275 feet per car equals 537,6000 cars.

537,6000 cars at 17 metric tons per car equals 9,139,200 metric tons.

9,130,200 metric tons at current Chicago prices equals $393.000,000.

Then Mr Passman triumphantly announced: "I think we are putting our finger on where we should be giving some help." He asked AID officials over and over again for "an effective rat control programme" and ridiculed as often as he could that the US should have only one "rat exterimmator" in a country as large as India where rat population is exploding even faster than human population.

From rats to sadhus was an easy and natural step for Mr Passman. It is amazing how Mr Passman accumulates all the little tid bits he can lay his hands on over the year to prove his perseverance as an enemy of aid. So there was no surprise when he read a newspaper report that some Hindus were to burn 9,000 tons of food in Ahmedabad. In the interrogation that followed, it transpired that Mr Williams had also read the report. He did more. He raised the matter with the Indian ambassador.

"The ambassador told me," he said "that his government was seeking to discourage this kind of thing, that there is a traditional burning of rice but the quantities involved are grossly exaggerated."

Mr Passman was not satisfied. "Attempting to discourage? Can't they do more than discourage? Cant they stop it?" he growled. Then he added this pungent comment: "Between these rats, these fanatics, and the monkeys and cows, they are going to break us financially."

Curious Justification

Like a magnet, he had also attracted Mrs Gandhi's statement earlier last year that India is now prepared to get along with so much foreign aid. Mr Williams manfully rose to the defence of Mrs Gandhi that India was planning to reduce net foreign aid to zero in about 10 years and this is what Mrs Gandhi had meant. Mr Passman could not accept this elaboration. Nor his justification for increased aid to India to make it possible for her to reduce her dependence.

He harped instead on Mrs Gandhi's reported words : "We are now prepared . ." So why burden India with additional aid?, he asked. Mr Williams did a great job of explaining. He stood his ground but so did Mr Passman. They did not even agree to disagree. Mr Passman, concluding, said:

"You come in and ask for $399,5 million, almost double what you allocated last year. That is why we have to examine so hard. . . . what you do is not consistent with what the leader of the country is saying."

With the same doggedness, he inquired about India's population growth, her rate of economic progress and her military budget. Mr Passman's ability to warp situations comes out best in his allusions to India's military budget. Picking on the figure of $1.5 billion which India spends on defence, he came to the conclusion that all

India had to do was to reduce her military budget and she would be well off.

The supreme absurdity of his thinking, which of course, supremely escapes his unrefined mind, revealed itself in his suggestion that to raise resources, India should sell her military equipment, her tanks planes and submarines "to nations who are begging to buy them."

There wasn't a trace of humour in his suggestion. Nor was there any awareness about India's defence needs or the risks she would run if she lowered her guard. Once again, Mr William bore the brunt of Mr Passman's barbed attacks. But the exchange showed that Mr Passman's hide is made of sterner stuff and it covers his impenetrable brain.

The Year's Achievements

E. B. BROOK

VIENNA:

IT is almost unavoidable that a turn-of-the-year commentary should be something of a review of things past and a look into the near future. The timing of the year's end is essentially a European arrangement, too early for a real ending of the old or a beginning of the new. But, because the Gregorian calendar is accepted the world over in business, all economies are geared to it.

Nowhere is this more true than in Brussels, the Common Market's capital, where, if it is not possible to finish difficult business by the year's end, the clock is stopped and the old calendar kept up while problems are settled under the guise of getting everything fixed up by midnight of December 31.

This year this rather childish strategem has not been necessary; everything was neatly and conveniently tied up the week before Christmas and all jolly Marketeers were able to go home and be merry.

Merry, for the most part, they might very well be, for trade has flourished in 1969, the West German mark has come off its overvalued perch and the French have agreed, under conditions, to an expansion of the Market.

Briefly, the year's achievements, some of them momentous, have been these:

The successful establishment of Special Drawing Rights on the International Monetary Fund to protect national currencies against speculative runs on the weaker of them which have caused so much anxiety and perplexity in the last two years.

The success of the two-tier gold system which has brought metallic gold down from its inflated free market value of $ 42 for a fine ounce to a realistic $ 35.

The revaluation of the Deutschmark, which relieved irrational pressure on the pound and the franc and helped, temporarily, to lower interests of Eurodollar investments which plague European banking.

The Common Market's decision at The Hague summit meeting to permit consideration of its expansion providing present members agreed on an improved system of financing agricultural products.

The agreement of the Common Market ministers on December 22, to finance the Community by a combination of levies on food imports and tariffs on imports of other goods, together with a surcharge on the value added tax in each country. This means that the Common Market will cover its budget from its own sources by about 1978 and could open the door more widely for British entry by having met French insistence on prior agreement about Market agricultural finance.

Both the French and West Germans showed up well at the meeting in Brussels; both made a big effort and some sacrifices and there are now no other decisions to be taken concerning the Common Market's budget and there is no outside element that can modify the decision. The French have at least obtained what they wanted on three issues—a date for the creation of an autonomous Market budget, the guarantee of a progressive transition to this form of budget and the complete payment into the Market's coffers of the levies on agricultural products from third countries.

Agreement still has to be reached on the powers of the European Parliament and these may be settled at the next session of the Market's ministers on January 19 and 20. The importance of the event is threefold—it slightly democratizes the Common Market by making its budget subject to some form of parliamentary control; it furthers the prospect of European unification; it brings the French undertaking on negotiations to the test.

A year ago, the atmosphere of mutual distrust within the Market was so intense that no one thought it possible that agreement could be reached by the end of the year: it is one of Europe's biggest achievements in 1969 that the Market budgeting arrangements and its levies on agricultural products have been agreed.

Another move towards European co-operation that deserves brief mention is the decision by the governments of Britain, West Germany and Holland just before the Brussels meeting to collaborate on uranium enrichment. The agreement points the way in which an enlarged Europe could provide a framework within which politics and economics of such major and progressive undertakings could be more thoroughly and rationally worked out, individual contributions pooled and the strain of capital investment shared.

Balancing US Power

A third form of co-operation that is still a dream or an exercise in optimistic illusion was that put before the Action Committee for a United States of Europe by the Yale economist, Prof. Triffin, at its meeting in Bonn. He suggested the creation of an all-European reserve pool which would balance American monetary power and be available to stave off speculation on weaker currencies.

Prof. Triffin's idea is seen as a first step towards harmonizing the monetary policies of member-countries and, later, of co-ordinating wages and price policies and even, possibly, of evolving a common European currency.

The concept has already been greeted with suspicion by central bankers who would have to deposit some part of their gold and currency reserves in a European Reserve Fund held by the Bank for International Settlements in Basle. Americans are also suspicious of the creation of "a European caucus inside the International Monetary Fund." But Europe has had enough shocks in the last three years to persuade it of the wisdom of giving some thought to proposals that would assist integration. A broadening of the Market with new members would be a tremendous spur to this tendency.

The moving finger writes

INDIA HAS been demoted in the International Monetary Fund. As a result of the allocation of the Special Drawing Rights among the member-countries and the consequent alterations in their respective quotas, India is no longer among the privileged five who are entitled to nominate a permanent director on the Fund's Executive Board. Its quota is now the eighth largest in size whereas it was the fifth largest before. It has been displaced from its previous position by Japan. Besides this, Canada and Italy have come to be ranked higher than India. One result, of course, is that the Government of India will no longer be in a position to provide high officials of the Finance Ministry or the Reserve Bank with cosy assignments on the Executive Board of the IMF as a matter of course. Hereafter this country could be represented on the Executive Board only by successfully contesting for the elective seats. This however is a minor matter. The more substantial implication of India's loss of rank in the IMF is that this demotion is an indication of this country's backwardness in economic growth. India has now been overtaken by Japan, Canada and Italy and if the performance of its economy in the seventies proves to be no better than what it was in the sixties, it is to be expected that more and more countries will be beating it down in various international ranking lists.

The million-rupee question in the politics of the capital now is to what extent the Prime Minister really has the initiative in disciplining or directing the pressures or policies of any party It may be too soon to suggest that poor Mrs Gandhi has only succeeded in changing her bosses, but it is surely clear for all to see that the ambitious Mr Chavan or the resourceful Mr Jagjivan Ram would be a far harder nut to crack than the principled Mr Morarji Desai, the gentlemanly Mr Nijalingappa or the self-effacing Mr Kamaraj.

Whether Mrs Gandhi did desire to get Mr Swaran Singh, Mr Dinesh Singh and Mr K. K. Shah into the Working Committee of her party or not I do not profess to know, but the fact remains that, while Mr Swaran Singh has been quietly, but firmly loyal, as may be expected of him, Mr Dinesh Singh, as is only too well known, has put his one and only political shirt on the Prime Minister. As for Mr K. K. Shah, he has been active in her cause to an extent which must have surely strained his physical stamina even if not his mental agility. If, on more than one occasion, he has failed to bring home the bacon—and the case of Mr Gaekwad who managed to wriggle out in time comes to mind—his 'lapses have to be blamed more on his poor judgment and perhaps bad luck than on any deficiency of zeal or allegiance.

When such is the case, I wonder why Mrs Gandhi failed to recognise or reward the services of these gentlemen, and allowed their claims to be ignored in the constitution of the Working Committee of her party. There is also the exclusion of Mr Uma Shankar Dikshit from the Working Committee. Mr Dikshit however has made himself so indispensable to Mrs Gandhi in so many ways and over so many years that his proximity to the throne or his presence in the royal councils is not exactly dependent on his holding any formal position in the party or the government. This might have been true also of Mr Dinesh Singh once, but that it is true of him still is not to be taken for granted.

It is now considered highly likely that the Prime Minister will face the budget session with a council of ministers which may include some new personalities. Assuming that she is really interested in giving the country as good a ministerial team at the centre as is possible under the present circumstances, her best bet would be to induct men of proven worth from Congress ministries in the states. This would be a fruitful exercise even if she chooses to limit the area of selection to those states where the ruling groups of Congressmen are firmly with her and her new party. Mr V. P. Naik or Mr S. K. Wankhede from Maharashtra will certainly be an asset from the point of view of both leadership and administration. Either of them could easily preside with distinction over any of the major ministries. Mr Mohanlal Sukhadia, again, is a talented politician and a skilful administrator. It is possible that he has been Chief Minister of Rajasthan for too long and his transfer to Delhi may do good both to him and to the government of that state.

Mr D. P. Mishra of Madhya Pradesh—this time a politician out of power—must be feeling impatient indeed for his share of the political pie which he has helped Mrs Indira Gandhi to bake. He is an obvious claimant for a seat in the central cabinet and he would certainly be a very useful counter-weight to Mr Chavan, should the latter be disposed to become unduly aggressive in pursuing any plans that he may have for becoming the power behind the throne. The Prime Minister, in fact, could and probably will employ the opportunity she has of including in the cabinet men like Mr D. P. Mishra and Mr V. P. Naik for strengthening her hands against certain other colleagues who may threaten to become too powerful.

Mr K. Hanumanthaiya's name is now being mentioned in speculations about the probables for the central cabinet. Mrs Gandhi perhaps sees in him a useful stick to beat Mr Nijalingappa with. The far younger and far more zestful Mr M.V. Krishnappa should surely be entertaining visions of returning to the central government. Mr Krishnappa's flamboyance and even brashness may have a certain value in the present state of polemical politics, but if age is against Mr Hanumanthaiya, Mr Krishnappa's reputation or reputations are certainly not in favour of Mr Krishnappa. In Andhra Pradesh, again, Mrs Gandhi may have to consider the possibilities of Mr Brahmananda Reddi and Mr D. Sanjivayya.

About the present incumbents, it is obvious that some at least of the ministers of cabinet rank may desire a change of portfolios. The Ministry of Industrial Development, in any case, does need a change of the minister and while Mr V. P. Naik, Mr Wankhede or Mr Sukhadia would, in my view, be a very suitable choice for this charge, Mr Dinesh Singh or Mr K. K. Shah may also be entrusted with it. There are wild rumours of one or two of the Young Turks being let in. I, for one, am not inclined to give any credence to them. Mrs Gandhi, I suspect, has already had more than enough of Mr Chandra Shekhar or the like. To be sermonised by Mr Chavan is bad enough, to be harangued by Mr Chandra Shekhar must surely be intolerable, especially for the proud woman that she is. Among the younger men who are now on the council of ministers or are hopefully keeping vigil on the doorsteps, the Prime Minister, no doubt, has her preferences where promotion or induction is concerned. But from the point of view of the good of the administration, it may be suggested that Mr K. C. Pant and Dr S. Chandrasekhar could be profitably taken note of. There is no reason why Mr Pant, whose personal or political conduct has been strictly correct during the trying times of the last few months, should not be given full cabinet responsibility for the Ministry of Steel and Heavy Engineering. As for the Minister of State for Family Planning, his term in the Rajya Sabha is due to expire. It is right that his re-election should be ensured so that he may continue with his good work on a vital national front. Lastly, the expendables. I would merely mention two : Dr Triguna Sen and Mr Satyanarayan Sinha. I would any day have Mr Raghuramiah back in the saddle at the Ministry of Petroleum and Chemicals and if Mr Inder Gujral were to continue to rule the Ministry of Information and Broadcasting in reality, I would much rather he does so in name as well. Mr Gujral, incidentally, also has a problem of expiring membership of the Rajya Sabha.

V. B.

Trade Winds

GOA FERTILISER PLANT

THE UNION government has recently cleared the Goa fertiliser plant. A letter of intent for a fertiliser plant in Goa was issued to Birla Gwalior Private Limited in 1964, whereafter the promoters entered into a collaboration agreement with Armour and Company of Chicago. On submission of this collaboration agreement, an industrial licence was issued by the union government on December 2, 1966 for a fertiliser plant with a capacity of 340,000 tonnes of urea per annum. The sponsors thereafter entered into negotiations with foreign institutions for loans and initiated proceedings to acquire land, arrange for water supply, electricity, transport and basic raw materials for the project. In 1968, Armour and Company sold their fertiliser interests to US Steel. A new collaboration agreement was entered into with US Steel on November 1, 1968, and was approved by the union government on March 21, 1969 While finalising this collaboration agreement with US Steel the scope of the project was enhanced to include the production of compound fertiliser at a total cost of $ 70.9 million which was approved by the government. After receipt of the approval the sponsors executed all the loan and investment agreements with IFC, Washington, Bank of America and USAID for providing the entire financing of the project. The engineering and construction contract was executed with Toyo Engineering Corporation of Tokyo towards the end of 1969. This agreement is for the completion of the project in 27 months on a turnkey basis at a firm price. The loan from the Bank of America was arranged earlier at a low rate of interest. This project which is contracted to be commissioned in 27 months will produce much needed fertiliser in the country, thereby saving precious foreign exchange to the tune of Rs 35 crores per year from 1972 onwards.

INDIA'S QUOTA OF S.D.R.s

World monetary reserves have been boosted by $ 3,414 million (about Rs 25,600 million) with the first allocation of Special Drawing Rights to 104 countries, the International Monetary Fund announced recently. This country has been allocated $ 126 million (Rs 94 5 crores) for development purposes. While the largest allocations has gone to the US which received $ 866 88 million (more than Rs 650 crores), the UK gets $ 409.92 million (Rs 300 crores), the United Arab Republic $ 25 2 million (Rs 18.9 crores) and Pakistan $ 31.584 million (Rs. 23 68) crores. Each country's allocation totals 16.8 per cent of its quota as on December last. The quota is based on a nation's size and economic strength. The SDRs are transferable like gold or currencies in settling accounts between nations, and are designed to expand reserves to sustain the growth of world trade.

ZENITH STEEL EXPORT

Zenith Steel Pipes Ltd has reached the $10 million-mark in its exports of steel pipes of f.o.b. value. Starting its exports in 1964, the company has been the largest exporter of steel tubes in the country. Speaking on the occasion to hand over the documents completing Zenith's $ 10 million exports, Chowdhury Ram Sewak, union Deputy Minister of Foreign Trade, stated that exports of engineering goods increased from Rs 2 crores prior to 1957 to Rs 82 crores in 1968-69. The minister added that a target of Rs 11.70 crores had been set for exports of steel tubes in 1969-70. He called upon manufacturers to revive the pool scheme. He said the growth rate for the export of engineering goods was slower this year than last year. The government had, therefore, called upon exporters and the Engineering Export Promotion Council to rally in the last three months with a determination to achieve the target of Rs 110 crores through a crash export programme.

CABLE EXPORTS

An export order for 85,000 metres of cables worth about Rs 50 lakhs has been booked by Siemens India Ltd, together with the Cable Corporation of India, for West Germany. During the year, Siemens expects a 50 per cent increase in orders for its switchgear factory at Andheri, near Bombay, and a 100 per cent increase in its motor factory at Kalwa. The company has also received export orders for motors and switchgear from West Germany, the U K, Australia, Spain and Egypt.

TRADE WITH YUGOSLAVIA

India and Yugoslavia signed a new trade and payments agreement recently effective until March 31, 1972. The agreement continues the rupee-trading bilateral arrangements between the two countries. Estimates of bilateral trade this year were Rs 40 crores in total turnover. Of this, Indian exports to Yugoslavia were placed at Rs 25 crores. The target for 1970 trade exchange between the countries is a 25 per cent increase. The delegations agreed to intensify industrial collaboration in tractors, leather goods manufacture and shipbuilding for which Yugoslavia would supply machinery and technical assistance. This country plans to provide machinery and managerial skill for an aluminium plant in Yugoslavia.

I.M.F. QUOTA

Japan has supplanted this country as one of the five countries with the biggest quotas in the International Monetary Fund who have the right to appoint a member of the Fund's 20 executive directors. The IMF announced recently that India's quota in the planned share out of $ 7,600 million would be raised by 25 per cent from $ 750 million to $ 940 million. All the 114 member-nations of the Fund, except Taiwan receive increased quotas to match the growth of the world economy. Japan would receive the largest quota boost among leading industrial nations with a 65 per cent rise from $ 725 million to $ 1,200 million. The US would get the largest dollar increase under the regular five-yearly review of IMF quotas. The executive directors of the IMF proposed that the US quota be raised by about 30 per cent, from $ 5,160 million to $ 6,700 million.

U.S. INVESTMENT ABROAD

Increased capital for US private investment in developing countries will be available in 1970 under changes that will ease restrictions on the amount of money permitted for transfer to overseas operations. Modifications in the US government's foreign direct-investment programme were announced recently by the US Treasury and Commerce departments. In addition, the Federal Reserve Board announced changes in banking guidelines to permit

more capital to be used for financing of US exports. Under the investment programme changes, the minimum investment allowed for direct US investors will be raised from $1 million to $5 million, provided the additional $4 million is used in developing countries.

I.M.F. PURCHASE OF GOLD

The International Monetary Fund has agreed to buy gold from South Africa. According to the agreement, the Fund will purchase newly mined gold, if necessary, under specified conditions tied to South Africa's foreign exchange needs. The practical effect is, to put a rough floor under the free market price at about $ 35 an ounce. Details of the arrangement were announced by the IMF after months of negotiations, mainly between the US and the South African governments.

AIR FRANCE's NEW ROUTE

The inauguration of the new Trans Siberian Line by Air France and Aeroflot, Paris to Tokyo, in April 1970 will mark an important landmark in aviation. The new service will link Paris and Tokyo in only 13 hours and 45 minutes including a stopover of one hour at Moscow, against 17 hours via the Pole and 24 hours via this country.

STEEL PRICES INCREASED

The union government had approved an average price increase of Rs 75.00 per tonne in steel prices. In addition, the government has also decided that a further average increase of Rs 2.50 per tonne should be allowed for contribution to the engineering goods export assistance fund. The total average increase would, therefore, be Rs 77.50 per tonne. The new prices announced recently took effect from January 1, 1970. The government has authorised the Joint Plant Committee in Calcutta to notify the new prices.

BAN ON AUTO PARTS LIFTED

The union government has clarified that the ban on new units for automobile and tractor wheels has been removed. A notification issued recently stated that interested parties could apply for fresh licences up to January 31. For some years there has been a ban on the establishment of new units for the manufacture of ancillary items for automobiles. Early this year the position was reviewed and the ban was removed in respect of a few items of automobile ancillaries. Recently the position was reviewed further in the context of higher targets fixed for various types of automobiles during the fourth Plan and it was expected that the demand for almost all would be substantially in excess of the present installed capacities.

MYSORE IRON EXPANSION

Mysore's Chief Minister, Mr Veerendra Patil, recently switched on the Rs 10-crore bar and rod mill of the Mysore Iron and Steel Works, the factory's alloy and special steel expansion scheme. The unit, planned for a capacity of 77,000 tonnes of alloy and special steel, is claimed to be as highly sophisticated as the most modern rolling mills in the world. It has been planned for the production of rounds, flats and hexagons of alloyed steels. The expanded plant, now in the third year of production, produced 15,000 tonnes of special steels last year, apart from about 45,000 tonnes of finished mild steel and 35,000 tonnes of steel billets. The expansion scheme was taken up in 1962 to increase the mild steel ingot production capacity from 45,000 tonnes to 100,000 tonnes. Later, it was decided to convert the mild steel into alloy and special steel.

AIR BLAST BREAKERS

Tata-Merlin & Gerin Limited have for the first time introduced into the Indian market high voltage air blast circuit breakers of permanently pressurized type, used widely in electrical power generating and receiving stations. Two striking features are that the company has manufactured these sophisticated 110 kV air blast circuit breakers barely within one and a half years from the date of signing of the collaboration agreement with Ets. Merlin & Gerin, Grenoble, and done so with maximum indigenous content both in public and private sectors. The first few air blast circuit breakers which are now being delivered form part of their first prestige order for 25 Nos. 110 kV 5000 MVA breakers from the Maharashtra State Electricity Board.

RAJASTHAN CANAL PROJECT

The Consultative Committee of Members of Parliament attached to the Ministry of Irrigation and Power, has unanimously suggested that Rajasthan Canal Project should be given additional funds and the work on the project accelerated. At a meeting held recently the committee stated that in view of the fast depletion of drinking water facilities and recurring famine conditions in Rajasthan, water supply from the canal held a great promise to the people of the state. It has been pointed out that completion of the project at an early date would also result in reducing expenditure on famine relief. Dr K.L. Rao, union Minister for Irrigation and Power, indicated that about Rs 50 crores would be needed to complete the first stage and another Rs 10 crores for the development of areas where famine conditions were in existence on a more or less permanent basis.

EXEMPTION FROM LAND REVENUE

The UP government issued an ordinance recently exempting uneconomic holdings up to six and a quarter acres from land revenue with effect from the current rabi season. The ordinance called the UP Zamindari Abolition and Land Reforms (Second Amendment) Ordinance, also does away with the restriction which prevented resettlement of land revenue before 40 years after the principal Act and reduces the limit to 20 years.

H.M.T. WATCH UNIT

According to an agreement signed recently between Messrs. Citizen Watch Company, Tokyo, Japan, and the Hindustan Machine Tools, HMT will take up the manufacture of automatic watches. The HMT watch factory under a phased programme of manufacture, will step up the production of automatic watches to 200,000 by 1972 73. The indigenous content of HMT automatic watches will be on a par with other HMT watches— over 84 per cent. By then the HMT watch factory would be in a position to turn out 400,000 watches per year, 50 per cent of which will be of the automatic variety. Mr E. Yamada, President, the Citizen Watch Company, signed the agreement on behalf of the Japanese collaborators, while Dr S. M. Patil, signed on behalf of the HMT.

Mr V.G. RAJADHYAKSHA

Mr V. G. Rajadhyaksha, Chairman of Hindustan Lever Ltd, has been elected President of the Bombay Chamber of Commerce & Industry for the year 1970-71. He will take office after the Chamber's annual general meeting in February 1970. After extensive experience in the Hindustan Lever factories, he joined the board of the company in 1965, and was successively development director, technical director and vice-chairman. He took over as chairman in June 1968. He has been a member of the General Committee of the Bombay Chamber of Commerce & Industry since 1966.

Company Affairs

IMPERIAL TOBACCO

At a recent meeting of the Imperial Tobacco Company of India Ltd, the shareholders have authorised the board of directors to issue 3,790,000 ordinary shares at a price of Rs 13 each, out of which 5,00,000 ordinary shares are to be offered to resident shareholders in the ratio of one for every two already held and the balance and to be offered for public subscription. The directors have confirmed that the final dividend payable in August will not be less than 6.5 per cent, making a total in the year of not less than 13 per cent. The proposed issue of 3,790,000 ordinary shares will be made this month and the final dividend will be payable on the share capital as increased by this issue. The net proceeds of the issue are intended to be utilised to finance the company's programme of extensive modernisation of plant and machinery and to meet increased working capital requirements. After the issue, local participation in the company's equity capital will rise to just over 25 per cent with 4,790,000 ordinary shares of Rs 10 each in the hands of the general public.

ANDHRA PRADESH PAPER

The Andhra Pradesh Paper Mills Ltd will enter the capital market on January 21 with an issue of 75,000 equity shares of Rs 100 each for subscription for cash at par. The issue will close on January 30 or earlier at the discretion of the directors but not before January 23, 1970. The company has an authorised capital of Rs 5 crores. The company took over the 10-tonnes-per-day paper mill from the Government of Andhra Pradesh and embarked upon an expansion programme to 70 tonnes per day in two stages. The first stage of expansion was completed by March 1967 against which the production during the year ended June 30, 1969, was 34,903 tonnes. The second stage of expansion programme is nearing completion and normal commercial production is expected to commence by early 1970 after which the production will be about 50,000 tonnes per annum. Modernisation and installation of latest equipment in the second stage of expansion programme may replace some of the imported papers.

ACC

The Associated Cement Companies Ltd has earned a gross profit of Rs 8.84 crores for the year ended July 31, 1969, against Rs 9.21 crores for the previous year. Its sales of cement totalled Rs 63.62 crores against Rs 56.38 crores. The production of cement was higher by 240,000 tonnes at 4.95 million tonnes. The drop in earnings despite the rise in sales and production is attributed to the increase in costs. The company's net profit amounts to Rs 2.55 lakhs, against Rs 2.51 lakhs, after providing Rs 484.15 lakhs for depreciation, Rs 311.8 lakhs for development rebate reserve, Rs 17.68 lakhs for managing agents' remuneration and Rs 67.58 lakhs for expansion reserve. The directors have proposed to maintain dividend at 12 per cent with new shares ranking for a proportionate distribution. Total dividend distribution will amount to Rs 3 03 crores against Rs 2.85 crores. The second unit of the company's Wadi project was commissioned in May, 1969. The new kiln at Keymore started working in June, 1969, and the extended plant capacity was fully achieved. With the completion of the current expansion programme the company's annual cement producing capacity will be raised to about seven million tonnes.

UTKAL MACHINERY

The invoiced value of sales of Utkal Machinery Ltd (UTMAL) during 1968-69 amounted to Rs 3.1 crores resulting in a gross profit of Rs 40 lakhs and a net profit of over Rs 20 lakhs. The turnover target set for 1969-70 is Rs 3.5 crores. This Indo-German venture with GHH-Oberhausen and Larsen & Toubro as partners, commenced production of sophisticated equipment in 1965 and has its workshops at Kansbahal in Orissa. It fabricated some of the most complicated equipment necessitating high precision; for instance, it recently delivered a 1200 x 1500 double toggle jaw crusher with a capacity of 450 tons/hour. This is the largest crusher made in this country so far. Notable among the orders on hand are pulp and paper-making machines costing Rs 18 lakhs, a pig casting machine with a capacity of 600 tons per day, a crushing plant, two hot metal cars and four hot metal ladles for M/s Mysore Iron and Steel Ltd., Bhadravati.

GANESH FLOUR MILLS

The working of the Ganesh Flour Mills Co. Ltd during the year ended March 31, 1969 has resulted in a net loss of Rs 4.59 lakhs compared to the loss of Rs 120.21 lakhs in the previous year, after providing Rs 12.22 lakhs for depreciation and Rs 1.72 lakhs for development rebate reserve. Sales dropped to Rs 16.67 crores from Rs 19.39 crores. The company has applied for permission to install a new vanaspati unit at Kanpur, subject to the grant of concessions by the Government of Uttar Pradesh. Failing this, it proposes to expand both the Kanpur and Delhi factories to 100 tonnes capacity each with a view to increasing their earning capacity.

TELEFUNKEN

Annual sales of Telefunken India Ltd more than doubled during the year ended June 30, 1969, from Rs 62.23 lakhs in 1967-68 to Rs 131.15 lakhs in 1968-69. Net losses declined from Rs 21.72 lakhs in 1967-68 to Rs 8.40 lakhs in 1968-69. In October 1967 the company started manufacturing radio sets in its factory at Ballabgarh near Delhi. Since then, in less than two years, it was able to introduce in the market five different models in various price classes. The company's all-India sales outlets, also recording a two-fold increase in a year, numbered more than 1,100 at the end of the period under review. Telefunken radio sets found ready markets in many countries abroad, including some in Europe, where the sets made in this country were accepted as equal in quality to the German-made Telefunken models. Exports of Telefunken radio sets earned foreign exchange of about Rs 8 lakhs in 1968-69, the first year of the company's export sales. They are expected to increase substantially in future. The company has plans for diversifying the manufacturing line. It received letters of intent for manufacturing a variety of electronic components as well as for the expansion of the existing


ever seen sweetness this simple?
the sweet young thing,
all covered up in folds of loveliness..
in the aura of Century's
tastefully elegant cotton saree.
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manufacturing capacity to 300,000 radio sets a year.

CAPITAL AND BONUS ISSUES

Consent has been accorded to sixteen companies to issue shares amounting to over Rs 13.47 crores. Fourteen of them are to issue bonus shares. The amount of bonus shares ranges between Rs 78,100 and Rs 1,00,00,000. The consents are valid for 12 months. The following are the details :

Sakal Paper Private Ltd, Poona, has been accorded consent to capitalise Rs 97,700 out of its general reserves and issue fully paid equity shares of Rs 100 each as bonus shares.

India Marine Service Private Ltd, Calcutta, has been accorded consent to capitalise Rs 2,00,000 out of its reserve fund and issue fully paid equity shares of Rs 100 each as bonus shares.

Swan Mills Ltd, Bombay, has been accorded consent to capitalise Rs 20,00,000 out of its general reserves and issue fully paid equity shares of Rs 100 each as bonus shares in the ratio of one bonus share for every three equity shares held.

Thacker & Company Ltd, Bombay, has been accorded consent to capitalise Rs 78,100 out of its general reserves and issue fully paid equity shares of Rs 50 each as bonus shares in the ratio of one bonus share for every four equity shares held.

J. K. Synthetics Ltd, Kanpur, has been accorded consent to capitalise Rs 1,00,00,000 out of its general reserves and issue 10,00,000 fully paid equity shares of Rs 10 each, as bonus shares, in the ratio of one bonus share for every two equity shares held.

The Finlay Mills Ltd, Bombay, has been accorded consent to capitalise Rs 20,00,000 out of its general reserves and issue fully paid equity shares of Rs 100 each as bonus shares in the ratio of one bonus share for every three equity shares held.

Consolidated Coffee Ltd, Coorg, has been accorded consent to capitalist Rs 44,71,870 out of its general reserves and issue fully paid equity shares of Rs 10 each as bonus shares in the ratio of one bonus share for every three equity shares held.

Bharat Radiators Private Ltd, Bombay, has been accorded consent to capitalise Rs 2,00,000 out of its general reserves and issue fully paid equity shares of Rs 100 each as bonus shares in the ratio of two bonus shares for every five equity shares held.

The Gold Mohur Mills Ltd, Bombay, has been accorded consent to capitalise Rs 10,00,000 out of its general reserves and issue fully paid equity shares of Rs 100 each as bonus shares in the ratio of one bonus share for every seven equity shares held.

The Hindustan Ideal Insurance Company Ltd, Hyderabad, has been accorded consent to capitalise Rs 3,65,306.25 out of its free reserves and issue fully paid equity shares of Rs 25 each as bonus shares in the ratio of one bonus share for every four equity shares held.

Newasarwa Mills Private Ltd, Ahmedabad, has been accorded consent to capitalise Rs 5,00,000 out of its general reserves and issue fully paid equity shares of Rs 100 each as bonus shares in the ratio of one bonus share for every four equity shares held.

Dey's Medical Stores Private Ltd, Calcutta, has been accorded consent to capitalise Rs 10,50,000 out of its general reserves and issue fully paid equity shares of Rs 1,000 each as bonus shares in the ratio of one bonus share for every equity share held.

Victoira Mills Limited, Bombay, has been accorded consent to capitalise Rs 8,80,000 out of its general reserves and issue fully paid equity shares of Rs 100 each as bonus shares in the ratio of one bonus share for every three equity shares held.

Kant & Company (Private) Ltd. Calcutta, has been accorded consent to capitalise Rs 22,50,000 out of its general reserves and issue fully paid equity shares of Rs 100 each as bonus shares in the ratio of one new bonus share for every equity share held.

The Andhra Pradesh Papers Mills Ltd, Hyderabad, has communicated to government its proposal to issue capital of Rs 75 lakhs, in equity shares of Rs 100 each for cash at par under clause 5 of the Capital Issues (Exemption) Order, 1960. The cost of the project having gone up, the proceeds are to be utilized to cover the extra cost of the project.

Binny Ltd, Madras, has been accorded consent to issue equity shares of Rs 680 lakhs, 9.75 per cent cumulative preference shares of Rs 26.24 lakhs, 7 per cent debenture stocks of Rs 15.64 lakhs and 7.75 per cent debenture stocks of Rs 300 lakhs to the shareholders of Binny & Company Ltd. The Buckingham Carnatic Company Ltd, the Bangalore Woollen, Cotton & Silk Mills Company Ltd, Binny's Engineering Works Ltd, the Ganges Transport & Trading Company Ltd, and Madura Company Private Ltd, on the latter six companies' amalgamation with Binny Ltd, in the manner sanctioned by the High Courts of Madras, Kerala, Mysore and Calcutta.

LICENCES AND LETTERS OF INTENT

The following licences and letters of intent were issued under the Industries (Development and Regulation) Act 1951 during the period August 23 to September 27, 1969. The list contains the names and addresses of the licensees, articles of manufacture, types of licences --New Undertaking (NU); New Article (NA); Substantial Expansion (SE); Carry on Business (COB); Shifting- and annual installed capacity.

During the week ended August 30, 1969

LICENCES ISSUED

Telecommunications

M/s General Electric Co. of India Ltd, Paharpur Works, 58, Taratolla Rd; Calcutta-24. (West Bengal)--Plated Circuit—216,000 nos. of circuits (NA).

Transportation

M/s Giovanola-Binny Ltd, 7-Armenian Street, Madras-1. (Kerala)—Steel Fishing Vessels, Tugs, Launches & Barges; Steel Vessels for inland water, Harbour and Sea Transportation and Dumb Barges—2,000 tonnes (NA).

Machine Tools

M/s Engel India Machines and Tools Ltd, 1-Taratola Road, Calcutta-53. (West Bengal)—Extruders (above 65 mm size only)—50 units; Take Off Units for Extruders—30 units; BlowMoulding Machine—20 units; Waste Grinders—100 units; Granulators—10 units—(NA).

Fertilisers

The Chairman & Managing Director, Fertiliser Corpn. of India Ltd, New Delhi. (Assam)—UREA—Existing capacity 55,000

tonnes (Capacity after expansion 3,85,000 tonnes)—(SE).

Chemicals

M/s Sarabhai Merck Ltd, Wadi Wadi, Baroda. (Gujarat)—Fine Chemicals (Items manufactured at present)—Present Capacity 200 tonnes—500 tonnes after expansion (SE); Aluminium Salts; Aluminium Chloride; Aluminium Hydroxide Acetate; Aluminium Nitrate; Aluminium Sulfate; Aluminium Powder; Ammonium Heptamolybdate; Aniline Oil; Ascorbyl Palmitate; Benzaldehyde; Benzelene; Calcium Formate; Ceric Ammonium Sulphate; Cerium Sulphate; Cupferrom; Dextrose Anhydrous; Dextrose Monohydrate; Dipotassium Tartarate; Disodium Tartarate; Ethylene Glycol; Iron Powder; Isopropyl Alcohal Kiselgel; Lead Peroxide; Magnesium Trisilicate; Methyl Ethyl Ketone; Nickel Powder; Nickel Aluminium Alloy; Nitrobenzene; Normal Propyl Alcohol; Oxynex; Potassium Permanganate; Propylane Glycol; Pyridine; Soda Asbestos; Sodium Nitro Pruseide; Trisodium Phosphate; Trichloreethylene; Zinc Metal (Dust, Power and Granules)—75 tonnes (NA); M/s Alta Laboratories Ltd, Vissonji Park, Naigaum Cross Road, Dadar, Bombay-14. (Maharashtra)—Para Hydroxy Benzoic Acid—200 tonnes; Methyl Ester 100 tonnes; Prophyl Ester 25 tonnes; Butyl Ester—12 tonnes (NA).

Drugs & Pharmaceuticals

M/s Standard Pharmaceuticals Ltd, 67, Dr Suresh Sarkar Road, Calcutta-14. (West Bengal) Decaferon (A Malted preparation)—12,00 Kg; Typhostrep dry syrup—1500 Kg.—(NA).

Textiles

M/s Howrah Mills Co. Ltd, 4, Clive Row, Calcutta-1. (West Bengal) Jute Carpet Backing Cloth—64 Broadlooms to produce 3,251 tonnes of Carpet backing cloth—(SE); M/s Angus Co. Ltd, 3, Clive Row, Calcutta-1. (West Bengal)—Jute Carpet Backing Cloth—100 broadlooms to produce 5080 tonnes of Carpet backing cloth—(SE); M/s Naffar Chandra Jute Mills Ltd, 36, Strand Road, Calcutta-1. (West Bengal)—Jute Carpet Backing Cloth—25 broadlooms to produce 12700 tonnes of carpet backing cloth—(SE); M/s Kamarhaty Co. Ltd, 3, Clive Row, Calcutta-1. (West Bengal)—Jute Carpet Backing Cloth 64 broadlooms to produce 3251 tonnes of carpet backing cloth—(SE).

Food Processing Industries

M/s Surat Distt. Co-operative Milk Producers Union Ltd, "Sumul Dairy" Gopipura Main Road, Surat. (Gujarat)—Milk Powder—180 tonnes—(NU).

Rubber Goods

M/s Madras Rubber Factory Ltd, Dhun Buildings, 175/1, Mount Road, Madras-2. (Madras)—Automobile Tyres and Tubes—250,000 nos. each—(SE); M/s Ceat Tyres of India Ltd, Bhandup, Bombay-1. (Maharashtra)—Automobile Tyres and Tubes—25,000 nos. each—(SE); M/s Goodyear India Ltd, 225-C, Acharya Jagdish Bose Road, Calcutta. (Haryana)—Automobile Tyres & Tubes—87,000 nos. each. (6 lakh nos. each after expansion)—(SE).

Leather and Leather Goods

The Skins and Leathers (P) Ltd, 13/72 Ponnurangam Road, R. S. Puram, Coimbatore. (Tamil Nadu)—Calf Skins—875,000 Sq. Ft.; Apron Leather—1250,000 nos; Footwear—125,000 pairs—(COB).

LETTERS OF INTENT

Electrical Equipment

M/s Phillips India Ltd, 53, Jorbagh, New Delhi-23. (Maharashtra) I.F. Transformers/Chokes/Coils. Expansion capacity—2.4 million (Miniaturised type)—(SE). M/s Dass Hitachi Ltd, 21-A, Janpath, New Delhi-1. (UP)—I.F. Transformers/Chokes/Coils 0.4 million—(NA); M/s Jaipur Metals and Electricals Ltd, Near Railway Station, Jaipur (Rajasthan)—Transformers/Coils/Chokes (Miniature type) 1.9 million nos.—(NA); M/s Modi Industries Ltd, Modinagar (UP)—Drycells—60 million nos.—(NA); M/s Andrew Yule & Co. Ltd, 77-Park Street, P.B. No. 408, Calcutta-16. (West Bengal)—Various Switchgears items—14350 nos.—(NA).

Telecommunications

M/s Mulchandani Electrical and Radio Industries Ltd, Sukh Sagar, Hughes Road, Bombay-7. (Maharashtra)—Tape Recorders—20,000 nos.—(NA).

Plastic Moulded Goods

Shri M. Sarangapani, B-15 & 16, Industrial Estate, Hyderabad-18. (Andhra Pradesh)—Plastic Processed Goods—PVC Industrial Sacks—9 million nos; H. D. Polyethelene Sacks—3 million nos; PVC Fumigation Tents—5,500 numbers.—(NU).

Chemicals

M/s Bayer (India) Ltd, 82, Veernariman Road, Bombay-1 (Maharashtra)—Chloroquin—Increase of capacity from four to 12 tonnes—(SE); M/s Aniline Dyestuffs & Pharmaceuticals Pvt. Ltd, Mahalaxmi Chambers, 2nd Floor, 22, Bhulabhai Desai Road, Bombay-26. (Maharashtra)—Tricresyl Phosphate; Triphenyl Phosphate; Tricolyl Phosphate—1,000 tonnes—(NA); Shri Babubhai Nathlal Chokshi, c/o M/s Rainbow Texdyes Corpn., Pratapnagar Road, Baroda (Gujarat)—Various Vat Dyes—102 tonnes—(NU); Dr Virendra Patel Ph.D., 770, Gotri Road, Baroda-7. (Gujarat)—Chemical and Immuno-Chemical Test Systems—(NU).

Sugar

Shri Sheo Shankar Singh, Promoter : M/s Rasra Co-operative Sugar Factory Ltd, Rasrra, Distt. Ballia, Uttar Pradesh : Through The Distt. Magistrate, Ballia (UP)—Sugar-Cane Crushing capacity—1250 tonnes per day—(NU); Shri Chitaranjan Singh, Promoter : M/s Harduaganj Co-operative Sugar Factory Ltd, Harduaganj, Distt: Aligarh : Through The Distt: Magistrate, Aligarh. (UP)—Sugar—Cane Crushing capacity 1250 tonnes per day—(NU); M/s Ram Narain Gangwar, Promoter: M/s Kaimganj Co-operative Sugar Factory Ltd, Kaimganj, Distt: Farrukhabad. Through : The District Magistrate, Farukhabad (UP)—Sugar—Cane Crushing capacity 1250 tonnes per day—(NU); M/s Challapalli Sugars Ltd, Indian Chamber Buildings, Esplanade, Madras-1. (AP)—Sugar—Cane Crushing capacity increased from 1250 tonnes to 2500 tonnes per day—(SE); M/s Shakti Sugars Ltd, 72, Sengupta Street, Ramnagar, Coimbatore-9. (Mysore)—Sugar—Cane Crushing capacity 1250 tonnes per day—(NU); Shri G. Mahadevappa, Chief Promotor, Bhadra Co-operative Sugars Ltd, 591, Mandipet, Davangere City, (Mysore)—Sugarcane crushing capacity 1250 tonnes per day—(NU); Shri P. K. Patil, Chief Promoter, Salpuda Tapi Parisar Sahakari Sakhar Karkhana Ltd, Shahoda, Distt. Dhulia. (Maharashtra)—Sugar—Cane Crushing capacity—1250 tonnes per day—(NU); Shri S. Y. Miraji, Chief Promoter; Shri Doodhganga Krishna Sahakari Sakhare Karkhane Niyamit, P.O. Chi-

kodi, Distt: Belgaum. (Mysore)—Sugar—Cane Crushing Capacity 1250 tonnes per day—(NU).

Fermentation Industries

The Maharashtra Sugar Mills Ltd, Industrial Assurance Building, Churchgate, Bombay-1. (Maharashtra)—Malt Whisky—275,000 litres; Gin—60,000 litres—(NA).

Food Processing Industries

M/s The Jaypore Sugar Co. Ltd. 38, Mount Road, Madras. (Tamil Nadu)—Starch/Glucose/Dextrose—50 tonnes per day—(NU).

Glass

M/s Mahindra & Mahindra Ltd, Gateway Building, Appolo Bunder, Bombay-1. (Maharashtra)—Glass re-inforced Tubes/Cones—55 tonnes; Glass re-inforced sheets—60 tonnes—(NA).

LICENCES REVOKED/SURRENDERED

(Information pertains to particular licences only)

M/s Jatin Industrial Corporation—Water Metres; Andhra Pradesh Industrial Development Corporation Limited—H. T. and L. T. Insulators; M/s Industrial Strips Limited—Cable Armour Steel Tapes; M/s Mahalakshmi Mills Co. Ltd—Cotton Yarn; M/s Himalyan Exporters, Delhi. (M/s Bharat Laminates Manufacturing Co.—High Pressure Decorative Laminates.

During the fortnight ended September 13, 1969

LICENCES ISSUED

Telecommunications

M/s Murphy India Ltd, Dr Shirodkar Road, Off : Hospital Avenue, Parel, Bombay-12. DD. (Maharashtra)—Carbon Potentiometers—1 million nos.; Band change switches—0.5 million nos—(NA); M/s Elpro International Ltd, Chinchwad, Poona-10. (Maharashtra)—Hard Ferrites—50 tons—(NA).

Indrstrial Machinery

M/s Kirloskar Pneumatic Co. Ltd, Hadapsar Industrial Estate, Poona-13. (Maharashtra)—Air and Gas Compressors of recaprocating type of 1,000 c.f.m. to 4,500 c.f.m. and upto a pressure of 10 atmospheres; 60 nos.—(SE).

Textiles

M/s Dani Wooltex Corp., Ganesh Bhawan, Ganesh Wadi, 2nd Floor, Bombay-1. (Maharashtra)—Shoddy Yarn (Other than Worsted and Woollen yarn)—1008 spindles—(COB); Woollen Yarn (Other than worsted and shoody yarn)—2,000 spindles—(SE); M/s The Bombay Silk Mills Ltd, Industrial Estate, Lalbaug, Bombay-12. (Maharashtra)—26 powerlooms for the manufacture of man-made fibre fibrics acquired from M/s New India Textiles, Bombay. Total capacity after expansion will be 134 powerlooms for the manufacture of man-made Fabrics—(SE).

Sugar

Shree Warana Sahakari Sakhar Karkhana Ltd, P.O. Warananagar, Distt: Kolhapur. (Maharashtra)—Cane crushing capacity increased from 1500 tonnes to 2000 tonnes per day—(SE).

LETTERS OF INTENT

Electrical Equipment

Shri Devinder Singh, 16, Aurangzeb Road, New Delhi. (Punjab)—Power Factor Improvement capacitors of ratings 1.1 KV and 6.6 KV to 11 KV—30,000 KVAR based on maximum utilisation of plant and machinery—(NU); M/s Semiconductors Ltd, Radio House (5th Floor), 6, Rampart Row, Fort, Bombay. (Maharashtra)—Electrical musical equipment—800 nos; Electronic recording and playback equipment (tape recorders)—10,500 nos—(NA)

Telecommunications

M/s J K. Electronics Kamla Tower, Kanpur. (UP)—Deflection Coils—30,000 nos; E.H.T. Transformers—30,000 nos; Tunners—30,000 nos; Leniarity Coils—30,000 nos;—(NA).

Industrial Machinery

M/s Precision Engineers, Plot C-8, Road-12, Wagle Industrial Estate, Thana. (Maharashtra)—Equipment for production of Synthetic Fibre—worth Rs 137.50 lakhs NU).

Machine Tools

M/s India Pistons-Repco Ltd, Hazur Gardens, Sembiam, Madras-11. (Tamil Nadu)—Crankshaft Grinders Models RGCS 1 &2—16 nos; Automotive Surface grinders Models RGC 2/RGC 2A—40 nos; Cylinder Boring Bar Machines Models R-100 and R-200 (Portable)—100 nos—(NA).

Sugar

M/s Govind Sugar Mills Ltd, 15, India Exchange Place, Calcutta-1. (UP)—Cane Crushing Capacity increased from 1200 tonnes to 1500 tonnes per day—(SE); M/s The New Swadeshi Sugar Mills Ltd, 15, India Exchange Place, Calcutta. (Bihar)—Cane Crushing capacity increased from 1200 tonnes to 2500 tonnes per day—(SE).

LICENCES REVOKED/SURRENDERED

(Information pertains to particular licences only)

M/s Jaipur Metals & Electricals Ltd.—EC Grade Aluminium Wire Rods; M/s Bharat Ball Bearing Co. Ltd, (Now M/s Shriram Bearings Ltd.)—Railway Axle Boxes; M/s Seethai Mills Ltd, Walajabad—Cotton Yarn; M/s Bharat Ball Bearings Company Limited, (now M/s Shriram Bearings Ltd)—Ball Bearings & Roller Bearings; M/s Perfect Valves & Machine Tools Corpn., Bombay—Chromium Steel Balls of Various ranges

During the week ended September 20, 1969

LICENCES ISUSED

Telecommunications

M/s Bharat Electronics Ltd, P.O. Jalahalli, Bangalore. (Mysore)—Silicon Transistor Diodes—6 million Nos. (Total capacity after expansion will be 10 million Nos)—(SE); M/s Mulchandani Electrical & Radio Industries Ltd, Sukh Sagar, Hughes Road, Bombay-7. (Maharashtra)—Record Players—40,000 nos.—(NA); M/s Radio & Electrical Manufacturing Co. Ltd, Post Bag 6, Mysore Road, Bangalore-26. (Mysore)—Radio Receivers—22,000—(SE) (Total capacity after expansion will be 40,000).

Industrial Machinery

M/s Voltas Limited, 19, Graham Road, Ballard Estate, Bombay-1. (Maharashtra)—Rotary-cum-Down Hole Blast Hole Drills—12 nos. (worth Rs 108 lakhs)—(NA).

Chemicals

M/s Paul Lohman (India) Ltd, East Angila House, 3, Camac Street, Calcutta-

16. (West Bengal)—Light Magnesium Carbonate 1,000 tonnes—(NA); M/s Union Carbide India Ltd, United Commercial Bank Building, 4, Parliament Street, P.B. No. 533, New Delhi-1 (Maharashtra)—Electrolytic Manganese Dioxide—2500 tones (NA).

Dyestuffs

M/s Amar Dye Chem Ltd, Rang Udyan, Sitladevi, Temple Road, Mahim, Bombay. (Maharashtra)—Beta Napthol 1000 tonnes (Total capacity after expansion will be 2000 tonnes (SE).

Drugs and Pharmaceuticals

M/s Cibatol Ltd, Post Atul, Distt: Bulsar, (Gujarat)—3-amino-2-phenyl pyrozole—40 tonnes—(NA).

Textiles

M/s Indian Jute Co. Ltd, 16, Strand Road, Calcutta. (West Bengal)—Jute Carpet Backing Cloth 100 broadlooms to manufacture 5080 tonnes of carpet backing cloth—(SE).

LETTERS OF INTENT

Metallurgical Industries

M/s Singh Engineering Works Ltd, P.B. No. 66, G. T. Road, Kanpur. (UP)—R. N. Clips for Railway sleeper—6 lakh nos. on maximum utilisation of plant (NU);

Electrical Equipment

M/s Karamchand Premchand (P) Ltd, Shahibag House, Shahibag, Ahmedabad. (Gujarat)—Cathode Ray Oscilloscopes: DC-10 MC/S—200 nos; DC-15 MC/4—200 nos; DC-35 MC/S—300 nos; DC-100 MC/S—300 nos—(NU).

Telecommunications

M/s Punjab State Industrial Development Corporation Ltd; UCO Bank Building, (3rd Floor), Sector 17-B, Chandigarh. (Punjab)—Radio Receivers—40,000 nos. (NU); M/s Navbharat Electronics, B-27, Greater Kailash-1, New Delhi-48. (Haryana or Mysore)—Connectors—1,000,000 nos; Relays—100,000 nos (NU).

Machine Tools

Shri S. K. Hari, c/o Malik Electric Works, 13, Victoria Road, Low Level, Bombay-10 DD. (Maharashtra)—1. Arc type Stud Welding Machines—40; 2. Stored Energy type Stud Welding Machines—30—Value of items 1 and 2 is Rs 10.5 lakhs; 3. Arc type Stud & Fastners—15 million; 4. Stored Energy type Studs and Fasteners—5 million—Value of items 3 and 4 is Rs 40.00 lakhs; 5. Ferrules—20 million Value Rs 6.00 lakhs; 6. Special Ceramics such as Corderite and Alumina components for industrial and electronic use—5 million—value Rs 6.00 lakhs—(NU).

Chemicals

M/s Arvind Mills Ltd, Railwaypura Post, Naroda Road, Ahmedabad. (Gujarat)—H. P. Polyethylene and Copolymers—2,40,000 tonnes—(NU).

Dyestuffs

M/s Colour Chem Ltd, 221, Dadabhoy Naoroji Road, Fort, Bombay. (Maharashtra)—Disperse Dyes—109 tonnes—(NA).

CHANGE IN NAMES
(Owners or Undertakings)

(Information pertains to particular licences only)

From M/s Track Part India Ltd, Kanpur —to M/s Track arts India Private Ltd, Kanpur.

LICENCES REVOKED/SURRENDERED

(Information pertains to particular licences only)

M/s Burhampur Tapti Mills Ltd, Burhampur (MP)—Cotton Waste Blankets; M/s India Waterproof Ltd, Calcutta—Cotton Canvas Cloth; M/s Telerad Private Ltd, Bombay—Capacitors, Carbon Resistors; M/s Kamani Engg. Carpn. Ltd, —H. T. Bolts and Nuts, Transmission Tower, Heavy Structural; Scindia Workshop Private Ltd, Bombay—Boat Davits with Winches.

During the week ended September 27, 1969

LICENCES ISSUED

Chemicals

M/s Indo-Nippon Chemical Alice Building, Dr D. Naoroji Road, Fort, Bombay-1. BR. (Gujarat)—Phthalate Plasticizers (Dioctyl Phthalate ISO Octyl Phthalate)—5,000 tonnes—(NU); M/s Dai-ichi Karkaria (P) Ltd, Liberty Building, New Marine Lines, Bombay-1. (Maharashtra)—Nonionic Products—3,000 tonnes—(SE).

Drugs & Pharmaceuticals

M/s Crookes Interfran Ltd; 54-D Dr Annie Besant Road, Bombay-18. (Maharashtra)—PVC Containers for transfusion solutions—12 lakh bags; Plastic Dispensing Sets—12 lakh bags—(NA); M/s Associated Capsules (P) Ltd, 131, Kandivli Industrial Estate, Bombay-67. (Maharashtra)—Empty Hard Gelatine Capsules —100 million capsules (Total capacity after expansion will be 200 million capsules)—(SE).

Textiles

M/s Pearl Woollen Mills No. 1, G.T. Road, Ludhiana (Punjab)—Woollen Yarn —(Other than shoddy or worsted Yarn) suitable for the manufacture of Carpets, blankets, tweeds)—5,000 spindles—6 lakh kgs. (SE); M/s Orkay Silk Mills, Kurla, Andheri Road, Saki Naka, Bombay-72. (Maharashtra)—Art Silk Fabric—54 powerlooms—(COB).

LETTERS OF INTENT

Electrical Equipment

M/s Traco Cables Co. Ltd, P O. Irimpanam, Via: Tripunithura, Eranakulam (Kerala)—Telephone Cables—100 Kms—(NA); M/s S.F. Products India Ltd, P.O. & Vill. Jalkhura, Distt. 23, Parganas, (West Bengal)—Industrial Air Control Equipment, Fans and Blowers, Electrostatic precipitators and air driers—Worth Rs 67,50,000—(NA).

Chemicals

M/s The Travancore-Cochin Chemicals Ltd, Udyogmandal P.O., (Kerala)—Sodium Hydrosulphite—1200 tonnes—(SE); M/s Indian Dyestuff Industries Ltd, Mafatlal House, Backbay Reclamation, Bombay-20. (Maharashtra)—Sodium Hydrosulphite —3000 tonnes—(NA)..

Food Processing Industries

M/s The Anil Starch Products Ltd, Anil Road, Ahmedabad-2. (Gujarat)—Liquid Glucose—12600 tonnes Dextrose—14,400 tonnes (Capacity after expansion will be 18,000 tonnes, each on continuous basis) —(SE).

LICENCES REVOKED/SURRENDERED

(Information pertains to particular licences only)

M/s Sitapur Sugar Works Limited—Sugar; M/s The Jiyajirao Sugar Co. Ltd—Sugar; M/s Pfizer Limited, Bombay—Thiacetazone & Thiosemi-Carbized.

BOOKS BRIEFLY

SINGAPORE'S ECONOMIC MIRACLE

Foreign Investments and Industrialisation in Singapore : Edited by Helen Hughes & You Poh Seng; The University of Wisconsin Press, Madison; 1969; Pp 226; Price $ 6.50.

Democracy and Development : Edited by S. V. Raju; Friedrich Naumann Stiftung and Indian Liberal Group; Pp. 142; Price not given.

Views and Reviews . V. T. Dehejia; Vora & Company Private Ltd; 1969; Pp. 123; Price Rs 9.

Monopoly Concentration and Industrial Licensing : Dr S. R. Mohnot; Oxford and IBH Publishing Company, Calcutta; Pp. 171; Price Rs 18 50

Monetary Policy And Central Banking in India . Edited by V. R. M. Desai & B D. Ghonasgi; Popular Prakashan, Bombay; 1969; Pp. 182; Price Rs 28

The Plans—Progress and Portents : Dr S. R. Mohnot; Oxford & IBH Publishing House, Calcutta, Pp. 142; Price Rs 6.50

Reviewed by Prof. S. S. M. DESAI

Seven economists representing five different nations have made detailed and careful surveys of the experiences of a wide array of foreign investing manufacturers and have examined the problems and prospects for foreign investment in Singapore. The study is confined to direct foreign investment, that is investment which involves an equity interest and some degree of control in the sense that the lender wishes and is able to influence the borrowing company's policy. With its success in attracting foreign investors from a number of countries in the 1960s, Singapore was well suited for such an investigation.

The surveys on which *Foreign Investments and Industrialisation in Singapore* is based covered 127 firms with direct capital investment from six principal investing countries. For the majority of the firms surveyed, the principal reason for investment in Singapore was to follow up exports which had been supplied by the parent company. Changing expectations about market prospects and the promise of protective measures also lay behind the increased investment in the 1960s. A few of the firms surveyed began to manufacture in Singapore mainly to assure markets for their raw materials, while political motivation lay behind the decisions of some firms to invest there.

The United Kingdom shared the early leadership of foreign manufacturing investment in Singapore with the United States. Australia's relatively large share in Singapore's industry was due to its geographical proximity while the entry of Japanese firms in the 1960s was part of Japan's catching up process in international trade and investment. Hong Kong and Taiwan firms demonstrated the extent to which given trade barriers even relatively small producers can participate in direct foreign investment.

Broadly, investment followed established comparative advantages in international trade so that the UK, US, Japanese and Australian investment tended to be in industries which were capital-intensive and technologically complex or those in which international brand names predominated, while Taiwan and Hong Kong investment tended to be in relatively labour-intensive industries such as textiles, garments and food.

The most striking conclusion of the surveys was that the foreign investors, almost without exception, stated that tax concessions and pioneer status did not play any significant role in inducing them to invest in Singapore. They were not averse to paying taxes if they were making profits; conditions in which profits could be made rather than opportunities for tax concessions had brought large and small investors from the six countries to Singapore.

In a larger perspective, a gradual withdrawal of tax concessions by Singapore may not be unwise. The taxation revenue could be used profitably to improve the infrastructure for industry, for employment creation and for social service expenditures which would all boost the market for local manufactures and so stimulate foreign and local investments in manufacturing. In the long run such expenditures are likely to bring more foreign investment than if equivalent sums are given away to firms by way of tax concessions.

The main factors which attracted foreign investors to Singapore were the government's free trade policy and welcoming attitude expressed in positive assistance mainly through the Economic Development Board and other government departments, the efficiency of the public services and utilities, and above all freedom from corruption. The executives of foreign firms did not have to spend months or even days in preliminary investigations and negotiating agreements which could be done quickly and efficiently. These were additional but no less important factors and India should take special note of this. In addition, there is a sound and sophisticated system of public finance Government's currency management kept currency stable in international terms and the supply of money kept pace with the growth of the economy.

Modest Investment

The paid-up capital from the six countries represented an investment inflow of at least $ 147 to 152 million in Singapore industry. The United Kingdom was by far the largest investor, followed by the US, Japan, Australia, Hong Kong and Taiwan. The total amount of capital invested was modest in comparison with total capital formation in Singapore which was $ 454.1 million in 1966 alone. It was nevertheless a significant contribution and it led to further investment of local capital in manufacturing. The foreign investment in Singapore also contributed to a shift in local investment from trading activities to manufacturing. It contributed to the creation of a share market which in turn built up capital market directly by giving large savers investment opportunities and indirectly by giving financial intermediaries such as insurance companies, opportunities to invest funds which they collected from small savers. Foreign investment also contributed at least a third of the value added and more than a fifth of employment in manufactur-

ing establishments in 1966. But the most important contribution made by foreign investment was the bringing of new technology, management and other business techniques to Singapore. The entry of a number of export-oriented companies into Singapore manufacturing brought an emphasis on export from early 1960s. Thus in 1966, 31 per cent of the sales of all pioneer firms with foreign investment were exported. What is interesting further is that the spread of foreign investment among six major countries provides a natural defence against economic and political pressure which any one of the investing countries could think of imposing on Singapore with its policy of non-alignment. It is to be noted that the total foreign investment in manufacturing is not likely to prove an unduly high burden on the balance of payments. Assuming a return of 10 to 20 per cent on a paid-up capital of some S 150 million from six countries, this would mean a net liability of S 15 million to S 30 million annually, if none were locally reinvested, while total manufacturing exports were already S 672 million in 1966. The repatriation of profits is therefore likely to be easily manageable in the foreseeable future. There is no doubt that Singapore has made successful attempts to overcome its economic difficulties year by year since independence with quite remarkable success.

The contributors have done an excellent job in producing scholarly papers and the book has been very well edited. This volume will provide invaluable assistance to private investors and governments of developing countries which are in need of foreign investment. The study also serves as an important case study for scholars of economic development.

DISTORTIONS OF DEMOCRACY

Thirty-five liberals from 14 countries of Asia and Europe gathered in Coonoor to examine critically the bewildering array of problems concerning democracy and development and to revise, if necessary, liberal thinking, to meet the challenge of recent times. The colloquium at Coonoor looked at the problems of democracy and development from a variety of angles and analysed the problems of democracy and development, of political stability, and the relative roles of agriculture, industry, the infrastructure, education and population in economic development. *Democracy and Development* contains ten papers presented at the semi-

Considering the wide variety of both the personal and national background of the 35 participants from 14 countries, a remarkable degree of agreement appeared to be forthcoming. By and large, the developing countries are mainly agricultural and rural. What is retarding agriculture in some of these countries is not, as is often believed, the small size of the holdings but the inadequate availability of inputs such as water, seed and fertilisers and the inadequate investment of capital and the use of technical know-how. The highest yields of foodgrains per acre have been achieved in Taiwan where average farms are of seven acres, with Japan coming second with average farms of only two acres, while countries with collective farming are to be found near the bottom of the scale.

Basic Industry

Agriculture is a basic industry and of prime importance in developing countries. This has often been overlooked and some of the developing countries have adopted priorities which have placed agriculture very low in the scale of values. F.A. Mehta has drawn attention to this distortion by listing six 'over-simplifications' which have become obsessions with the planners of some of the developing countries. These are : (1) Because industry has high productivity, it is the key to economic development. (2) Industry is necessary to draw off surplus agricultural labour. (3) As in the rich countries there is high steel consumption, steel manufacture must be given priority in poor countries as its production also stimulates other parts of the economy better than anything else. (4) A take-off period of 10 to 12 years requiring saving of the order of 12 per cent a year of the GNP investment is necessary, the aim being autarchy. (5) To avoid the horrors of the Stalinist system of achieving these things, huge amounts of foreign aid have to be provided. (6) Because the rich nations will always rig the world market against exports of the poor countries, import substitution rather than export promotion should be the aim of developing countries.

Industrial development is of course essential to establish a proper balance in the economy and for economic development and social and technological progress. But its aim should be to secure the development of society as a whole rather than to establish prestigious industrial units in isolation. Such a policy involves the development of light rather than heavy industries in many parts of the country. Deviation from this sound approach has already retarded the economic progress in India, Burma and Indonesia.

Dependence on Government

Another factor which has contributed to slow economic development of some of these countries has been their overdependence on government as an instrument of economic advancement. Mr Lee Kwan Yew the socialist Prime Minister of Singapore, drew attention to this when he asked the question : How is it that in Asia, countries like Japan, Hong Kong, Formosa, Thailand and Malaysia, which have bustling free enterprise societies, have achieved success, while countries professing socialism have failed to produce results? " Indian government and planners should as well ask this question to themselves and seek an objective answer.

There was general agreement that so far as liberals are concerned, the primary economic functions of the state are the regulatory function of holding the ring and preventing monopolistic and other anti-social practices and secondly to provide the infrastructure on which the edifice of the entire economy must be raised. For the rest all economic activities which can be undertaken by the enterprise of the people should normally be left to the operation of the free market economy. Where the state does enter the economic field as a participant in the process of production, the principle of autonomy should be applied to the operation of such state enterprises, which should be subjected to the discipline of the market through free and equal competition.

The seminar, while appreciating the economic and technical aid given by prosperous countries, opined that government to government aid should be normally provided for purposes of developing the infrastructure, while for industrial development, those in need of capital should look for private equity capital. Such investments not only promote formation of capital and stimulate modern management and research but have the greater advantage of coming into underdeveloped

countries at their own risk, unlike inter-governmental loans which have to be repaid with interest, whether their investment leads to a profit or not. The seminar's suggestion that the governments concerned should promote this healthy practice by establishing equitable codes for foreign investment is worth careful consideration.

While recognising the need to expand production and productivity first, the seminar felt that social services such as housing, health and education could not and should not be neglected but should be promoted to the extent that resources permit.

The seminar also considered the various factors that have bearing on political stability and the growth of democracy in under-developed countries. Among the factors inimical to the growth of democracy are the exploitation of hostility of ethnic and linguistic groups and of various religions and castes and the appeal of charismatic leaders.

Decentralisation of Authority

The seminar was of the opinion that maximum amount of decentralisation of authority alongside of appropriate and effective safeguards for minorities would mitigate the problems arising out of such diversity. The seminar also drew attention to the tendency in some democracies for the bureaucracy, politicians and businessmen dealing with the state to form a privileged New Class which alienates the rest of the community. The seminar also drew pointed attention to the inadequacies of dictatorship and guided democracy both of which are threatening the development of democracy in some of the developing countries. The liberals should make it plain that democracy is not only morally superior but has in the long run proved to be more efficient than dictatorship. But the seminar also rightly felt that democracy has many forms and the establishment of suitable forms of democracy in different developing countries is an important subject requiring urgent study.

Liberalism appears to be a sort of dead creed no longer relevant in the modern context. But the people who talk of socialism and democracy in the same breath should find the reoriented form of Liberalism as presented in this volume acceptable, if the extremes either of the right or of the left are to be avoided. Liberalism is in Indian blood and would appear to be the most appropriate policy both historically and on the basis of our experience since Independence. This book merits wider circulation among the thinking public.

BANKING INDUSTRY

Existence of sophisticated banking services is one of the essential prerequisites for rapid economic development and therefore the excellent collection of articles and speeches, *Views and Reviews*, by V.T. Dehejia is extremely welcome as they have a vital bearing on the development of the banking industry as a whole even after the nationalisation of the 14 commercial banks in the country. Dehejia was chairman of the State Bank of India during the years 1965 to 1969 and as such his views on different aspects of commercial banking in India should attract attention.

The author is of the opinion that the banking industry as also individual banks must plan their strategies in advance to dovetail with the five-year plans if they are successfully to withstand the increasing strain on their resources. During the fourth Plan period the demand for bank credit is likely to be of the order of about Rs 1500 crores and the banking system must plan in advance for that.

The author has traced the achievements of the State Bank of India and explained the difficulties of taking banking to rural India. He has rightly warned that generalisations about poverty and the scattered character of the rural population should not be allowed to obscure the demonstrable existence of bankable savings in rural areas. He wants that the obvious diffiulties such as high cost of maintenance of banking offices, problems of trained staff with the knowledge of rural conditions, securing suitable premises and making adequate security arrangements, problem of illiteracy and of regional languages, etc., etc. should be treated as challenges which must be met. The rural India will take to modern banking only after it is satisfied that its credit needs are being met in an expeditious manner.

As regards industrial financing by Indian banks the author feels that the Indian banks have given a fairly good account of themselves in meeting the challenges posed by the rapid growth and diversification of industries since 1956. The amount of industrial credit supplied by banks increased from Rs 243 crores in March 1955 to Rs 1287 crores in March 1965. The next decade, i.e. 1965 to 1975, is likely to be the decade of modern banking in Indian agriculture. The author has drawn attention to show how the State Bank in all this has provided facilities which have been the base of development for other commercial and co-operative banks in the country. It has thus acted as a pace-setter in many fileds. He has explained how the accent is no longer on the most profitable but on the most productive use of credit, on a movement in new directions, a shift of finance from commerce to industry and agriculture, from big to small customers and from city to small towns and villages. Naturally if the commercial banking system has to gear itself up to this new task, it has to be flexible in its working, creative in its approach, receptive to changes and determined enough to achieve specific objectives with courage and optimism.

Potent Factors

Writing about the mobilisation of rural savings, Dehejia is of the opinion that the influence of the interest rate on the growth of deposits can be over-rated. Progressive spread of banking habit and the expansion in the number of banking offices are more potent factors. In rural areas the banks will have to combat the preferences for gold and silver and such other physical assets. They must try new ideas including the use of regional languages, differential interest rates and new ways of meeting local credit needs. There will have to be improvement in services rendered, planned branch expansion and improved method of recruitment and training. In this connection, the author's suggestion that a new substructure of district and area level banks specifically for mobilisation of rural savings is worth consideration, especially as co-operative credit movement has achieved little success in mopping up rural savings.

There is no doubt that this is one of the finest books on commercial banking in India. Dehejia' approach is fresh, bold and unconventional. We do not meet here the academician's technical jargon. He writes to the point and his expression is facile. Obviously his clarity is born out of conviction and deep understanding of the subject. The only fault, if it must be pointed out, of such books containing old articles written over years is the inevitable but nonetheless tiresome repetitiousness. But

Deheja's facile pen makes us almost forget this defect which anyway would be a small price for the rich reward which the book promises.

A NEW APPROACH

Monopoly Concentration and Industrial Licensing contains the three commentaries published by the author in different newspapers on the reports of the Mahalanobis Committee, the Monopolies Commission and of Dr R. K. Hazari on Industrial Planning and Licensing and on the Monopolies Bill.

Chapter I of the Commission's Report is entitled "Concentration of Economic Power Defined". But according to the author nowhere has any definition of concentration of economic power been given. Also it is to be noted that from the terms of reference to the Monopolies Commission, the Government very ingeniously has excluded the public sector and the whole of agricultural sector.

It is amazing that in the Commission's report no reference has been made to the wide dissociation of control of industry from ownership of capital. Further a study of this subject without a comprehensive and simultaneous review of the fast-emerging countervailing factors is not only an imbalanced exercise but is also bound to lead to distorted and misleading conclusions.

Vitiated Study

Dr Mohnot also opines that the study of Monopolies Commission has been greatly vitiated by a lack of proper study of the process of mergers, amalgamations, absorptions and acquisitions by outright or stock purchases. He feels that it would be a bad day for the industrial growth of this country if entrepreneurial tools such as the managing agency system and financial tools such as inter-corporate investments are abolished from our industrial structure. There may be a valid basis for very strict control where the power is misused by means of the managing agency system or by inter corporate investments. But to eliminate such useful tools only because they might lead to concentration of economic power while other forms may equally well do so, is in fact another way of impeding India's industrial growth.

In view of the great confusion prevailing, it would be useful to state some facts. Concentration is an inevitable process in the present context of technological progress. Though there is some concentration of economic power in some private hands, it has also led to vast countervailing powers such as labour unions, co-operatives and the most important of all the state. In view of the inevitability of concentration of economic power, what is required is not a curb on it but on its fruits by a system of integrated and purposive social controls. Care should be taken to ensure that obsessed by the problems of concentration of economic power, we do not take steps that would destroy the very system of modern production and its tools.

In the larger context of economic policy and its objectives one cannot help feeling as one reviews the Monopolies Bill that this is one more avoidable addition to our already very complicated plethora of industrial and commercial legislation. Suitable amendments to the Companies and Industries (Development & Regulation) Acts would easily achieve, according to the author, the same purpose. The author has undertaken in this book a critical analysis of the Monopolies Bill, section by section.

Casual Treatment

Writing about Hazari Report' the author states that the charge of pre-emption and foreclosure of capacity has been dealt with only casually and accorded only a perfunctory attention. The charge is too serious and deserved more empirical and unbiased analysis. The great damage which the Hazari Report has done is to condemn efforts for industrial development. What ought to be condemned are wrong and doubtful methods employed to secure industrial control. The Hazari Report has confessed that it could not discover any reprehensible methods. Perhaps it is all obsession with the size! Further, what is most reprehensible is that in the report bearing the name of the Government of India and commissioned by the Planning Commission, Prof. Hazari should have injected communalism by trying to analyse industrial structure on the basis of different communities in India. But how can one distinguish a Punjabi from a Marwari industrial concern in which bulk of capital is in the form of public-held shares or foreign-held equity and institutionalised loans? Grave doubts are raised about the objective which the author of the report had in mind when this part of the report was written.

The trouble with such books containing critical articles published over years is that the writers assume that the readers are fully conversant with the reports of the Mahalanobis Committee, the Monopolies Commission, Dr R.K. Hazari on Industrial Planning and Licensing and with the Monopolies Bill. Brief summaries of all the above at the beginning or preferably as appendices would have enhanced the usefulness of the book. Also, Dr Mohnot often appears to be more engrossed with manner of his stating or his style than what he wants to state. Anyway the volume will be found useful as it provides a new perspective and a new approach to India's industrial policy.

MONETARY POLICY

Monetary policy and economic development is a favourite topic of economists these days and it is therefore a little surprising that the editors of *Monetary Policy and Central Banking in India* in their brief preface start with the extremely presumptuous claim that "In India very few writers have studied the problems of banking and monetary policy." Further, an equally presumptuous claim is made that the study departs from the traditional central banking and monetary policy and explains growth-oriented policy implications with an objective of achieving development with stability. All this has been done before by many writers and has been done in a much better way.

There are seven papers which are brought together in this book. The scope of the book is limited to the study of central banking and monetary policy in India and it is supposed to be specially planned to meet the needs of those who are either advanced students of banking or are interested in this study due to their profession or position.

The first paper is by one of the editors and though it contains much that is commonplace has some good suggestions. His suggestion that branch expansion programme should be planned regionwise is worth putting into execution at once. Similarly the proposal that co-operative banks should be brought within the full control of the Reserve Bank of India to enable the latter to implement the monetary policy more effectively is also a good suggestion. The suggestion made by B. K. Dutt and reiterated by the author that there should be established regional cen-

tral banks to be coordinated and guided by a central monetary board on the same lines as the Federal Reserve Board in the USA merits serious consideration as such decentralisation of central banking will bring the local management in closer and more intimate contact with the respective regions, facilitating not only better appreciation of the local problems and needs but also development of the desired relationship between the central bank and commercial banks.

The author's references to the Report of the Central Banking Enquiry Committee, to the itinerant money lenders such as Pathans and Kabulis who were last seen roaming Indian villages more than 35 years ago are all out of date and so are the statistical figures of 1964 quoted in a book published in 1969. Abundant figures in this particular field are made available even monthly by the Reserve Bank of India and it is surprising how the author could avoid them. The suggestion that the myriads of indigenous bankers be brought within the fold of the Reserve Bank of India has been repeated umpteen times: only nobody including the writer of this research paper gives us a practical plan of achieving the objective.

Theoretical Exposition

Dr P. R. Brahmananda's article on the Bank Rate while self-contained and good in itself, is a mere theoretical exposition of the problem and hence appears out of place in this book concerned specifically with Indian problems. On the other hand, Dr K.D. Doodha's article on Liquidity Preference Theory for India is a fine blend of theory and Indian practices. He has rightly pointed out that in the realm of monetary theory and practices very little empirical work has been done. In this respect it is noteworthy to observe that in the third Plan there is no reference to prices and the distilled essence of Planning Commission's semblance of a monetary theory and objective boils down to a lukewarm plea for price stability. But the trouble with Doodha's article is that it presumes that the reader has read articles on this subject by V. V. Bhat, P. R. Narvekar and A. G. Chandavarkar.

Next two articles by Alak Ghosh and the editors respectively contain extremely commonplace material which any student of economics can glean from a standard work of Indian economy. Footnotes and appendices while appearing to make the articles look scholarly add practically nothing to our knowledge.

M. S. Joshi's article on the non-banking financial intermediaries (NFI) contains a fine blend of theory and Indian practices. Increasing importance of non-bank financial inter-mediaries has led to the problem of reorientation of monetary policy in advanced countries as also to some extent in India. Against this background it has become necessary to examine the relative growth of commercial banks and NFI. After careful examination of the structure of financial intermediaries and the nature of NFI, the author feels that there is no need to introduce any new weapons or to extend the existing ones to cover the NFI at this stage. On the other hand the author opines that for mobilisation of idle hoardings and their effective channelling into most productive uses, a vigorous growth of the non-banking financial intermediaries is essential.

Curbing Inflation

The Radcliffe Committee Report recommended for the United Kingdom the control over total purchasing power including that created by the non-banking financial institutions as a means of curbing inflation which recommendation seems to be generally accepted in the developed countries. But the recommendation of that committee may not be borrowed wholesale here for the conditions may be different in India. The authors' unorthodox suggestion though opposed to the current political philosophy in India is backed by empirical data and is worth a trial

B. D. Ghonasgi's article on the monetary policy in a developing economy contains practically nothing new except the suggestion that an enquiry be held into the working of the Indian monetary and credit system on the lines of the Radcliffe Committee in England (1959) and the Commission on Money and Credit in the USA. (1961). No detailed enquiry has been made in India in this field since 1930s. Such an enquiry would mean systematic collection and analysis of data concerning different aspects of economic development and would provide lessons in the management of money and banking that would enable the authority to evolve short-term and long-term monetary policies aimed at helping economic development.

The book is good only in parts. Being a collection of articles, it does not give a comprehensive analysis of the subject which by its very nature is vast and complex. For the specialists for whom it is supposed to be written, it is too elementary. Considering the slimness of the book of only 182 pages, the price of Rs 28 is certainly exorbitant.

FACTS AND FIGURES

The Plans Progress and Portents is made up of the talks by Dr Mohnot on various aspects of India's three five year Plans broadcast from All India Radio, Calcutta, during the last fourteen years. The talks have been arranged subjectwise and not chronologically.

It is difficult to believe that it is the author of *Concentration of Economic Power in India, New Economic Deal* and *Monopoly Concentration and Industrial Licensing* who gave these talks. Most of the talks contain nothing more than the facts and interpretations as given by the government from time to time. The critical ability shown by the author in his other books appears to have completely vanished when delivering these talks. Most of the talks on the various aspects of the three Plans are of only historical significance and the facts and trends are so well-known to all students of economics that these talks do not at all hold the attention of the readers Rather they positively bore him. What is surprising is that the talks are not characterised even by the literary flourish which mark the author's other publications. The talks are reproduced without even a change in the tense and hence we get the peculiar situation as on page 11 where we are told while reviewing the progress of the first Plan that "It is estimated that in one year alone the food production increased by 4 4 million tons. This has enabled the country to become self-sufficient." All the talks should have been re-edited if they were to be of any significance and not cause confusion. On page 31 the author states while writing about agriculture: "The only difficulty is that we have to persuade 50 million agricultural families to forgo their property rights on land and join together in adopting co-operative farming. . we have to make this movement a success at any cost." This is the same author who subsequently in his *The New Economic Deal* pleads for economic freedom and that private enterprise should be promoted consciously and not apologetically. In

a talk given in 1955 and reproduced without any change we are told that "China is a big neighbour and it should be hoped that we would have very good trade relations with that country."

Possibly All India Radio did not allow the author to be critical of government's policies and achievements with the consequence that the pictures drawn by the author about the different aspects of the three five-year Plans and their impact appear to be viewed rather favourably while in his *New Economic Deal* (reviewed in *Eastern Economist* of December 5) in the very first article we are told by Dr Mohnot that recent economic policies have led to the economic crises in India, non-finanlisation of the fourth five-year Plan being the indication of the vacillation and confusion in the minds of the government. All in all, there is very little in the book that attracts our attention. The author has not shown his discretion in selecting articles which require drastic reediting. It is therefore surprising that such eminent publishers as the Oxford and IBH Publishing Company should have thought of bringing out this book.

A Bird's - Eye View of S.-E. Asia

Far Eastern Economic Review. 1970 Yearbook; edited by Derck Davies and published by P.H.M. Jones, 401-408 Marine House Post Office Box 160, Hong Kong; pp. 308, price (air mail) $ 6.60. Available in India from Central News Agency, 23/90, Connaught Circus, New Delhi-1.

Reviewed by S. P. Chopra

This is the 11th yearbook published by our contemporary from Hong Kong. The annual under review provides, in the words of the editor, "a complete review of events and developments in Asia during 1969".

In addition to critical analyses of the economies of 27 countries (covering politics, foreign relations, social affairs, economy, finance, trade, agriculture, industry and transport), the annual gives an assessment of the political situation in Southeast Asia under the head "Coming to Terms" along with a useful currency conversion table, a discussion of the problems of food and population and the part played by regional organisations in giving a boost to the economies of the countries in this area. Trends in trade, aid, banking and finance have also been discussed critically.

It is interesting to read how the split in the Congress party in our country is being interpreted abroad. Tracing the history of the break-up of the Congress the Review states. "In the process, its (Congress Party's) umbrella image was being shed and it was emerging as an integrated unit with a definite policy"- a clear case of distance lending enchantment to the view ! A map of South-east Asia on page 19 of the annual has solved the problem of India's border disputes with China and Pakistan in the north by keeping the border open and putting Kathmandu there through a rather far-fetched arrow. It seems to be a case of neutrality with a vengeance!

The impending American withdrawal from Vietnam has created some confusion in the area regarding the new power pattern which might emerge in the seventies and this is likely to have a great influence on the economies of the countries in South-east Asia. Moscow's efforts "to fill the vacuum" have added to the uncertainties and we agree with the Review that the outcome of all this is "any-body's guess".

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RECORDS AND STATISTICS

JANA SANGH'S ECONOMIC POLICY

THE Bharatiya Jana Sangh holding its 16th all-India session at Chanakyanagar in Patna adopted a comprehensive economic programme for rejuvenating the economy of the country. The resolution called for, among other things, nationalisation of foreign banks, "Indianisation" of foreign-owned firms dealing in tea, jute, drugs, soap, matches, vegetable products and cigarette industries, take-over of all foreign trade with communist countries conducted on rupee payment basis, withdrawal of all restrictions in the case of industries except where foreign exchange is involved or where there is threat of monopolistic tendencies, and strict implementation of land ceiling laws. The full-text of the economic policy resolutions adopted by the party is reproduced below :

Guaranteeing Basic Wants

Bharatiya Jana Sangh stands for the establishment of an economy which guarantees the minimum wants of every individual as well as his right to live and work freely. It considers the concentration of economic power — whether in the hands of some private individuals or groups or the state — as the negation of economic democracy. It visualises an order in which enterprise will be vastly diffused because it is only thus that jobs will be maximised as a step towards full employment which has to be our aim if economic growth has to acquire any meaning for our vast masses.

It is a matter of great regret that economic development as it has proceeded hitherto, has only created a set up what is termed as a dual economy with two parallel sectors — one characterised by richness of resources, advanced techniques and economic progress, the other by poverty, backwardness and stagnation and the two diverging and working at cross purposes, instead of merging and progressing together, causing in the process, damage and decay to the weaker section comprising of traditional industries.

If our planning had been really Swadeshi, unenamoured of spectacular capital-intensive projects and grandiose schemes, it would have sought in the main to base itself on and employ fully our own resources. That would have spared us both the choking burden of a foreign debt and a gross under-utilization of our means. In that case we would have been spared the persistent paradoxes of shortage of capital with idle industrial capacity, widespread disease with unemployed doctors, immense construction tasks with tens of thousands of jobless engineers and wasteful ostentatious display with grinding poverty. It is a result of this unnatural growth that its benefits have gone to the privileged few and have deluded the vast masses.

The system of controls over import-export trade and licensing has been worked in a way which has added to this distortion and disparity in the distribution of incomes. The result could have been nothing different from today's picture of widespread tension and labour unrest, falling per capita consumption of food, cloth and edible oils with rapid expansion in production of luxury goods, a stagnant per capita income, a middle class crushed under the weight of rising prices, massive tax evasion with vast amounts of black money floating about, while the genuine tax payer is harassed beyond measure. And all that we get is a dispensation of socialist slogans.

The Jana Sangh believes that the present state of the economy calls for a real new deal which can put it on the road to healthy and integrated economic growth. Towards this end it urges the following steps :

Agriculture

1. Attainment of self sufficiency in food production at the earliest possible time and taking all steps towards that end, in particular carrying the green revolution to all corners of the country and guaranteeing remunerative prices to the grower.

2. Provision of adequate credit facilities to peasants especially small tillers by the banks and altering the concept of creditworthiness in this context.

3. Strict implementation of land ceiling laws, enactment of such legislation where none exists and distribution of surplus and cultivable waste land among the landless, particularly members of scheduled castes and tribes and other backward classes.

4. Effective implementation of reform measures to provide security of tenure and a fair share to the '*bataidars*'.

5. Introduction of crop and cattle insurance.

6. A minimum wage act for agricultural workers.

7. Lower irrigation and electricity charges for full utilization of irrigation capacity.

Employment

Drawing up a programme to provide full employment to all able bodied persons: under which programme not only new unemployed should be provided for, but part of the back-log also should be covered.

To enable the educated unemployed, and particularly the technically qualified among them, to stand on their own legs, providing them with capital, land, machinery, and other facilities to set up small industries or trades.

Industry and Labour

1. An all out effort for increase in production, freeing industrial growth from the shackles of inefficient and cumbersome administrative delays and withdrawal of all restrictions in the case of industries except where foreign exchange is involved or monopolistic tendencies threaten.

2. Appointment of a high power commission to investigate the basis and working of foreign collaboration agreements with a view to finding out their effect on the country's economy.

3. Co-partnership for labour in management and profits, and protection of real wages through full neutralization of price rise.

4. Consultations with the government employees regarding the terms of reference of the Third Pay Commission whose appointment was recently announced, and constitution of a separate wage board for railway employees.

5. Encouraging Indians settled abroad

desirous of investing their resources in India.

6. Taking steps to make public sector undertakings efficient and profitable.

7. Full utilisation of industrial capacity presently lying idle.

8. Establishment of a network of agro-based and small industries in the rural areas to provide employment to rural youth.

9. Indianisation of foreign owned tea drugs, soap, matches, vegetable product, and cigarette industries and nationalisation of foreign banks.

Taxation

1 Simplifying taxation laws with a view to plugging loopholes, checking evasion, ending tax arrears and rationalising the system for protecting the genuine tax payer, eliminating corruption and for reduction of disparities.

Import Export Trade

(1) Take-over of all foreign trade with Communist countries conducted on rupee payment basis.

(2) Appointment of a high power commission to investigate the charges of irregularities, corruption and favourtism prevalent in the matter of import-export licences

Housing

(1) Initiating a crash programme for mass housing by promoting construction of houses through provision of developed plots and easy loans from LIC and other financial institutions to people of low and middle income groups with the objective of enabling every family to own a house.

(2) Promoting co-operative housing societies and setting up a Housing Corporation in every state which may raise funds through issue of housing bonds, build houses and transfer them through hire purchase on no-profit no-loss basis.

(3) Making it incumbent upon public authorities and industrial concerns to build residential quarters for their employees.

(4) Undertaking measures to reduce concentration of urban property and diffuse house ownership.

Amendments

The economic resolution attracted a spate of amendments but most of the amendments were disallowed for not being relevant. A few amendments, however, were accepted which did not in any way alter the spirit of the resolution. The amendments which were accepted related to the inculcation of the spirit of swadeshi, Indianisation of foreign-owned jute industry, granting of interim relief, pending the report of the third Pay Commission, to the central government employees according to the recommendations of the National Labour Commission, bringing agricultural labourers under the purview of the Minimum Wages Act, and distribution of surplus and cultivable waste land among the landless, particularly among ex-servicemen.

Regd. No. D-314
Registered with the Registrar of Newspapers for India under No. R. N. 535/57

Printed and Published by R. P. Agarwala, on behalf of the Eastern Economist Ltd., United Commercial Bank Building, Parliament Street, New Delhi, at the New India Press, Connaught Circus, New Delhi.
Editor V. Balasubramanian
Registered at the G.P.O., London, as a newspaper

EASTERN ECONOMIST

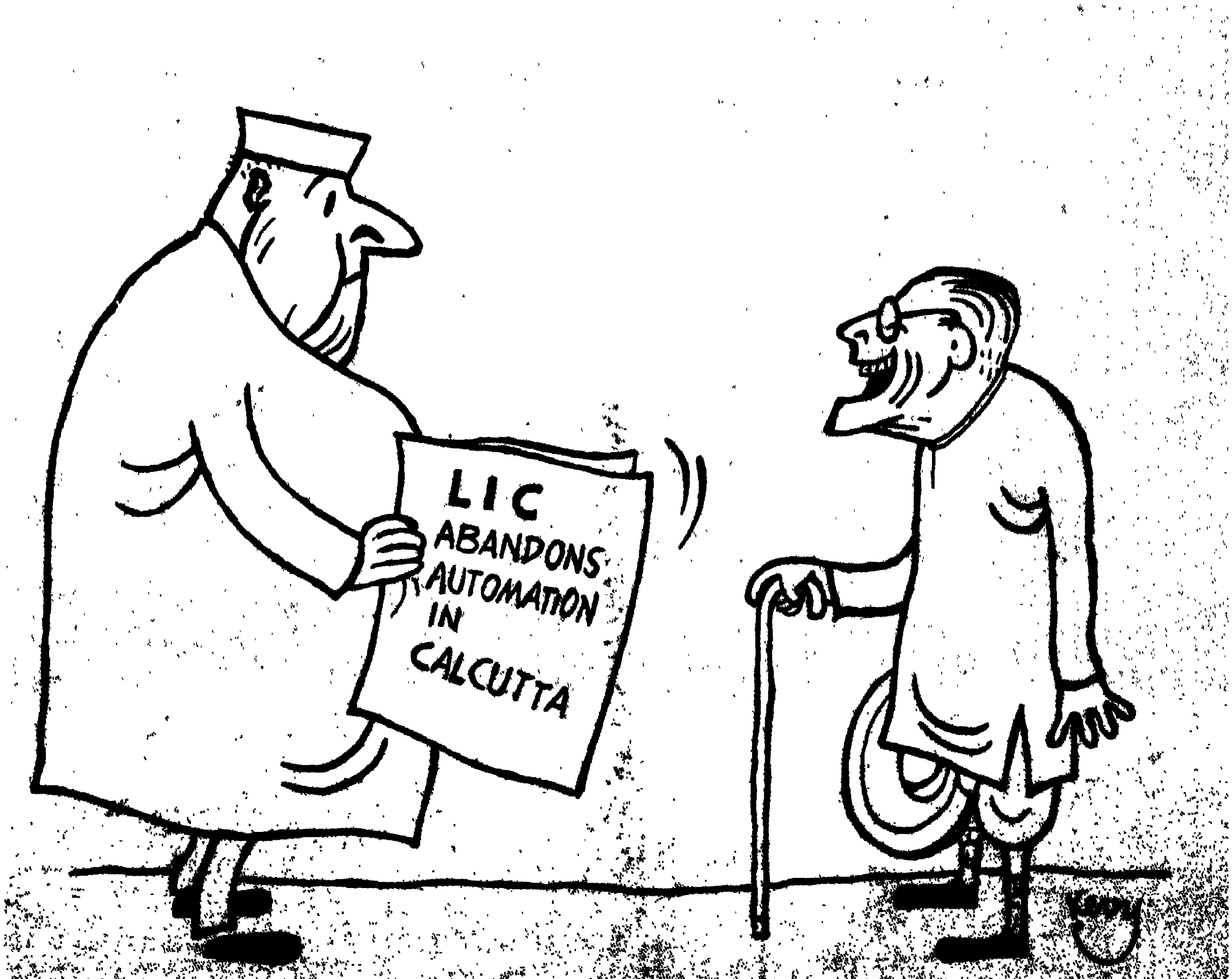
[RUP]EES 1.50. JANUARY 16, 1970. VOL. 54

When production waits on the politicians

Pant speaks for steel

Karan Singh gets his planes after all

King gold becomes constitutional monarch



LIC may abandon even life insurance if law and order don't improve in Calcutta.

EASTERN ECONOMIST

JANUARY 16, 1970

ANNUAL SUBSCRIPTION
INLAND : Rs 85.00
FOREIGN : £7-0-0 or $17-00
Airmail & Advertisement Rates on Enquiry
REGISTERED OFFICE
UCO Bank Building, P. Box 34, Parliament Street, New Delhi-1.

WHEN POLITICS IS PRINCE

MANY BUSINESS leaders or other eminent observers of the economic scene have been saying from time to time that it is the government's decision-making processes rather than its policy-making attitudes which must be blamed for the avoidable delays and difficulties imposed on entrepreneurs. There may be some substance in this assessment, but we doubt that it presents a rounded view of the problem. It is undoubtedly the case that neither red-tape nor the dead hand of bureaucracy, nor even the operation of Parkinson's Law (or Laws) is to be blamed for the postponement or frustration of so many worthwhile industrial projects. It is no doubt easy to blame corrupt or wooden officials—and we do not deny that their number is legion—but it seems to us that, in many important cases, the blame must be bluntly ascribed to lapses at the level of policy-making. It is in the national interest that this fact should be squarely faced.

Unfortunately, there are far too many among us who seem to be rather too readily disposed to put the best construction possible on the government's intentions or its performance. Mr G. D. Birla, for instance, spoke highly of the central government recently merely because it had decided to grant increases in the prices of steel and vanaspati. The fact is that, while periodical price adjustments in a controlled industry should normally be a routine administrative exercise, the government has been regularly subordinating the claims of controlled industries for economic prices to considerations relating to its own political interests. The increase in steel prices, for instance, has not only been delayed unduly, but has been less than what the increased costs of production would justify. As for the vanaspati industry, it has had to do battle every time against the government's reluctance to incur unpopularity by sanctioning an increase in the price of an article of essential consumption. Indeed, the industrial scene is littered with the maimed bodies of ill-treated industries for whom price control has always worked as a penalty or punishment merely for daring or desiring to exist. In all such cases it is not the dilatoriness or the cussedness of the bureaucracy which has been at fault, but deliberate policy attitudes at the level of minister-politicians.

Mr G. D. Birla, again, was generous in praising the central government for clearing the Goa fertilizer project. Here, again, the green signal was flashed just before the zero hour and only when it became the case that any further delay would have meant the reopening and renegotiating, possibly to this country's disadvantage, of a whole series of collaboration and financing arrangements which the promoters had patiently worked out over a period with a number of parties, including bankers, in the United States. It would be no exaggeration to say that a less patient or a less enthusiastic entrepreneur than Mr K. K. Birla would have long ago given up the scheme in despair, and had he done so it would have been not because the bureaucracy did not know better or individual officials were unhelpful or obstructive, but simply because the government's policy-making attitudes were so confusing and self-contradictory that the project had become a plaything of all kinds of political pressures. Mr G. D. Birla's tribute to the government in this case, if at all valid, was valid only to the extent that the Prime Minister and her secretariat stepped in just in time to rescue a scheme which was obviously of the greatest relevance and value to the progress of the national fertilizer programme to which the central government stood committed.

The issue that matters, however, is not whether a particular project has been reprieved at the last moment or not, but whether the way in which policy is made, or more often, not made is not working havoc with the nation's hopes of growth in production and employment. The way in which the government has been playing with the Mithapur fertilizer project of the Tatas is a familiar illustration of the harm that is being done to the economy in this manner. Other notorious examples, of course, are offshore oil prospecting, the expansion of refinery capacity in the private sector and, above all, the extremely casual manner in which the ministry or ministries concerned have been handling schemes in the private sector for setting up plants for the manufacture of alloy and special steels. In all these cases it is not the decision-making processes which are to blame but the policy attitudes of the minister-politicians.

The point we are labouring here is that if decisions are delayed or evaded it is often because it happens to be the government's policy of the moment to avoid taking decisions if they can help it. It is worth noting that where it

could be shown to be in the interest of the party in power, the government does not obviously have any difficulty in taking whatever decision it finds opportune. The Prime Minister's recent announcement conceding the demand for another oil refinery in Assam is a case in point, although the cynic may point out that beyond a vague reference to the fourth Plan, Mrs Indira Gandhi has carefully refrained from indicating when exactly work on the promised refinery may be expected to start. It seems to us, therefore, that the administrative bottleneck is far less an impediment than the political bottleneck. The inference is that the country may expect to grow fast industrially only when the politicians in power feel that it is to their or their party's interest to allow this growth to take place.

Recapturing a Vision

ALMOST EVERY other politician, whether in power or out of power, seems to be ready these days to shout for a bigger fourth Plan than the poor Planning Commission's Draft has proposed. If this fervour is not to froth and ferment into complete opportunism, thereby involving the national economy in a wastage of scarce resources, the central government should give a constructive lead without much loss of time and state firmly in what respects or directions it believes that the Plan might be enlarged so that there could be sounder as well as speedier economic growth. As it is, all kinds of wild-cat schemes for spending public money even before it is found have been left floating in the air like so many balloons.

From this point of view, the Ministry of Steel and Heavy Engineering deserves to be congratulated on coming forward with proposals for stepping up the expansion of steel capacity. It is fortunate that the resignation of Mr C. M. Poonacha and the *ad hoc* arrangement which the Prime Minister subsequently chose to make by asking the Defence Minister, Mr Swaran Singh, to take on this ministry as an additional charge has not come in the way of this new initiative in steel. Mr K. C. Pant, Minister of State in the Ministry of Steel and Heavy Engineering, who has been functioning actively under the overlordship of his cabinet minister, has been able to frame and discuss with the Prime Minister a blueprint for additional activity in steel during the period of the fourth Plan.

While the current shortage of steel products effectively serves to emphasize the importance and urgency of this forward-planning, it would be an oversimplification of the basic steel situation to relate the steel expansion programme entirely to this short-term context. As Mr Pant has pointed out, a doubling of steel capacity over the next ten years would be essential to the achievement of a growth rate even of six per cent for the economy as a whole. It is proper to recall here the grand conceptualisation of the nation's steel future which Mr T. T. Krishnamachari, as perhaps its most farsighted sponsor in the post-Independence period, had envisaged from the beginning. It was his exacting specification that the nation should aim at a capacity of from 20 to 25 million tonnes at the least as the genuine first stage in the growth of its steel sector.

In this view of the steel future of the country, the new plants set up or the expansion effected in the existing plants so far are only a preliminary to what must be accomplished through a continuous and increasing flow of effort in this field. It is good that Mr K. C. Pant has sought to impart currency and vigour to this dynamic vision of the nation's steel industry. The particulars of his expansion plan are a matter of detail except that he should undoubtedly give as much prominence to the early fruition of schemes in the private sector for the production of alloy and special steels as he has given to speeding up the various stages of the Bokaro project or the undertaking of other expansion plans for basic or other steel in the public sector. It is true that Mr Pant's proposals would call for an increase in the allocation of funds for the steel industry, but if there is at all a sound case for enlarging the size of the fourth Plan, a good part of the argument should surely be found in the case of the steel industry for faster growth.

Depositors Must be Reassured

WHATEVER MAY be the outcome of the writ petitions before the Supreme Court challenging the validity of the Bank Nationalisation Act, encouraging developments are taking place in the banking world. There are the prospects of a heady growth in deposits in the coming years provided the lending policies of the credit institutions continue to be on sound lines and the confidence of the depositing public in the stability and soundness of the banking system is strengthened. Under the policy of social control, the need for undertaking a vigorous programme of branch-banking was recognised and all scheduled commercial banks were encouraged to open more branches in unbanked areas.

A committee appointed by the Reserve Bank of India was also asked to examine how the activities of the different banks could be co-ordinated and how greater attention could be paid to the development of banking in backward areas. This committee felt that the same number of branches could be made to serve a larger area and particular banks should adopt special areas for intensified development. More recently a study group appointed by the National Credit Council has indicated that there are still 453 towns which have no banking facilities besides 827 centres in the rural areas which have considerable potential for banking business.

The objective is to ensure that there is no town without a bank by the end of this year and in order to make credit available liberally to borrowers in the agricultural sector new branches should as far as possible be started in the interior. In pursuance of this objective a good beginning has already been made as in 1969, as many as 974 branches were newly opened with 519 offices being located in unbanked areas. This rate of growth in the number of branches is unprecedented even though it must be said that, in the late sixties, between the State Bank of India and its subsidiaries and other major banks, new branches were opened in a big way.

The effort of 1969 will be further excelled in 1970 as the Reserve Bank of India recently issued a circular to the scheduled commercial banks asking them to formulate their plans for the opening of new branches in such a way that 600 offices are started in the first half of this year, 400 of them functioning in unbanked areas. There will obviously be a similar programme for the latter half of 1970 or the number of new branches may even be larger. But it is quite likely that the additions to branches will be in excess of 1200 and all the towns having a population of over 10,000 should be having a bank of their own by the end of this year. It has been estimated that in a five-year period the network of banks will comprise over 14,000 branches and it should be possible to reach the target for deposits of Rs 10,000 crores by 1974.

This target will not be difficult of attainment if there is continuing increase in agricultural production and there is also a faster spread of the banking habit. Already new trends in de-

posits have emerged and with the data published by the scheduled commercial banks for the week ended December 26, 1969, it is possible to say that the growth in net deposits of Indian scheduled banks was as much as Rs 621 crores in the 12 months ended December 26, against Rs 458 crores in the corresponding period in 1968. As many of the new branches were opened only in the last quarter of the year they might not have made any big contribution to the working funds of the banking system. With a large base already created and the arrangements for starting another 1,200 branches in 1970 it will not be surprising if the fresh additions to deposits amount to Rs 900 crores.

This process can be expected to be in evidence in the coming years barring unforeseen developments and it should be easily possible to more than double the net deposits of the scheduled commercial banks to Rs 10,000 crores during 1971-74. It is necessary to remember that even with the same rate of increase in the national income there can be a faster growth of deposits with growing monetisation of the economy. If the banking system grows considerably in stature it should be possible to ensure the productive use of available resources and increase the proportion of bank deposits to notes in circulation.

The fear has been expressed in some quarters that, with a liberal expansion of credit to borrowers in the priority sectors there may be an increase in the pressure on the banking system and it may even become necessary to restrict credit to the bigger borrowers particularly in the industrial sector. On the basis of the experience of 1969 and with the prospect of big additions to deposits in the coming years there may not be any need for denying credit to any class of borrowers so long as wholesale prices remain fairly stable and constructive policies are pursued by the monetary authorities. In the past year against the growth in deposits by Rs 621 crores advances amounted to Rs 516 crores resulting in a slight increase in the credit-deposit ratio to 74 per cent from 72.7 per cent at the end of 1968. In that year deposits increased by Rs 458 crores and advances by Rs 344 crores.

It must be pointed out in this context that a big rise in advances took place only in December 1969 and in the earlier months many banks had a problem of utilising effectively available resources. It is also necessary to remember that a good part of the additional advances in the past two years is on account of the Food Corporation and other agencies of the government, quite a large amount being locked up in buffer stocks. With intelligent changes in food controls and a liberalisation of the restrictions on the movement of foodgrains the locking up of funds in buffer stocks may not be such as to create difficulties for others. Indeed it is expected that the central and state governments would review the food situation in the next few weeks and take far-reaching decisions as the latest reports indicate that the output of foodgrains in 1969-70 may be considerably in excess of the production for 1968-69. As deposits may increase by Rs 900 crores in 1970 even with the grant of loans to borrowers in the agricultural sector there may not be any squeeze in the money market in the coming months. If there could be a parallel growth in deposits and advances and the needs of all borrowers were satisfied the new policies would have been worthwhile. It is in clarifying the doubts of borrowers and confirming the expectations relating to a growth in deposits that the happenings in 1970 should be considered as having crucial significance.

Gujarat : Towards Increased Industrialisation

THANKS as much to the growth-oriented attitudes of its government as to the initiative and drive of its business community, Gujarat is today among the more dynamic states where industrialisation is concerned. Its economic development will no doubt receive further impetus as a result of a convention which the Gujarat Chamber of Commerce and Industry is planning to hold next week in Ahmedabad. This would be the second convention of its kind. The first one was held in January, 1960, also in Ahmedabad, on the eve of the formation of the state. The chamber evidently feels that the businessmen of Gujarat could profitably meet again to compare notes on the progress which the state has made in the industrial field and exchange views on the possibilities for the future.

During the recent past, two institutions have played a positive role in promoting new industries in Gujarat and it is worth recounting their achievements here. Similar insitutions in other states can draw some useful lessons from their operations. The first of these institutions is the Gujarat Industrial Development Corporation(GIDC)which thanks to the bold and imaginative leadership of its chairman, Mr Manubhai Shah, has played a big role in setting up new industries in different parts of this state during the last seven years.

The GIDC has so far undertaken development activities in eight industrial areas such as Naroda, Odhav, Vatva, Vitthal Udyognagar, Vapi, Umbergam, Nandesari, 'C' sector, and Bhavnagar. During the year 1968-69, it undertook the development of no less than 17 new industrial areas in addition to the eight areas mentioned above. In all, the GIDC has sanctioned the construction of 969 factory sheds over an area of 8,692 acres which it has developed. No less than 203 factory sheds have already been completed and allotted to industrialists while the remaining ones are under construction.

The total expenditure on the development of factory sheds, roads, water supply, survey etc. incurred by the corporation since its inception has been more than three crores of rupees resulting in the employment of 5,700 persons. The total capital investment in the industries established through the assistance of the corporation is estimated to be around Rs 11 crores while the annual output of the factories is nearly Rs 17 crores. These industries cover a wide range of goods such as paints, pharmaceuticals, textiles, paper, agricultural implements, electrical accesories, electronic equipments, rubber products, plastic materials, acrated waters and automobile parts.

The corporation has also taken the decision to construct 94 rural workshops in different parts of Gujarat to be managed by rural artisans and co-operative societies. These workshops are expected to provide ready service to agriculturists and others in the rural areas for repairs of agricultural implements and tractors. In the wake of the rising productivity of land, the use of improved agricultural implements is expected to increase in the coming years and it is necessary to provide such facilities in rural areas if the agriculturists are not to be discouraged in the use of the these new facilities.

The second leading institution which has done commendable work in promoting the establishment of new industries, specially in the small-scale sector, is the Gujarat Industrial Investment Corporation Ltd (GIIC) which within a year has won extensive popularity in the state. This corporation, under the chairmanship, again, of Mr Manubhai Shah, came into being primarily for providing capital participation in limited companies, sponsoring and underwriting of new issues of shares and securities, providing long and medium term loans for fixed capital, and capital participation with commercial banks and the Gujarat State Financial Corporation.

A feature of the operations of the GIIC is the "Technicians' Scheme" designed to encourage young men who have

skill, know-how and exeprience to setup small industries or workshops of their own. What the technicians lack in almost all cases is financial support and it is here that the GIIC has played a useful role. Within the very first year of its operation, no less than 129 technicians have been sanctioned financial assistance worth about Rs 75 lakhs. This is indeed praiseworthy because through this scheme employment has been provided to unemployed technicians, craftsmen and engineers and at the same time production of goods of various kinds has been encouraged.

The GIIC has also selected certain industries which are being given high priority. Included in this list are: defence-oriented industries; industries which are substantial net savers of foreign exchange and in particular are export-oriented; manufacturing industries encouraging import substitution, specially export-oriented ones; essential consumer goods industries using indigenous raw materials; agriculture-based industries; and industries providing basis for further industrialisation.

The terms on which the financial assistance is provided to technicians by the GIIC are liberal so as to minimise the financial burden. The technicians are expected to repay the loan in 12 years long enough to enable them to establish a new industry on a sound basis. The rate of interest charged is as low as 4½ per cent for the first three years and 9 per cent for the remaining period. The loan is provided to cover value of plant, machinery, equipment and accessories and margin for working capital from banks.

It may be recalled that the State Bank of India, the premier public sector bank, has also prepared a scheme to assist qualified technicians and engineers up to Rs 100,000; this financial limit has recently been raised to Rs 200,000 in the case of individuals and Rs 300 000 for partnerships. A list has also been drawn up by the bank so as to indicate priorities, defence industries occupying the top place. The rate of interest charged by the State Bank of India is two per cent above the State Bank Advance rate with minimum 9 per cent per annum. The loan is expected to be repaid in five to seven years.

The Government of Gujarat has recently evolved a package scheme in collaboration with the Gujarat Small Industries Corporation Ltd and Gujarat Industrial Development Corporation for encouraging technicians and engineers to set up industries of their own when they require amounts up to Rs 10,000 each. This scheme is termed as the package scheme and loans are provided through the Industries Commissioner of the state.

The GIIC and the GIDC have also joined hands in preparing project reports on various subjects for the benefit of interested enterpreneurs. Special emphasis has been put on plastic manufacture and petrochemicals. These reports are prepared by committees of experts on different subjects and are made available to craftsmen, engineers and technicians who intend to become industrialists by taking advantage of the technicians' scheme. It is through all these means that the GIIC and the GIDC are steadily hastening the industrialisation of the state and also providing employment to the unemployed engineers and craftsmen. The moving spirit behind both the organisations is Mr Manubhai Shah former Commerce Minister in the Government of India, who is the chairman of the GIDC and has been working round the clock in order to provide guidance and advise to young entrepreneurs.

Flying High

THE INDIAN Airlines (IA) can take legitimate pride in its successful performance during the past two-and-a-half years, in particular during 1968-69. It could have been no easy task, surely, to rescue this airline from the financial turbulence in which it got caught in 1966-67, primarily as a result of the devaluation of the rupee. In that year, the IA suffered, for the first time in the sixties, a loss and that too to the staggering amount of Rs 283.50 lakhs. Since 1967-68, however, its working has shown considerable improvement. In this year, the loss of the IA dwindled to a bare Rs 26.20 lakhs. In 1968-69, the IA showed a net profit of Rs 165.74 lakhs a record for any year since the nationalisation of civil aviation in 1953. The 1968-69 profit represented a return of 12.8 per cent on the equity capital of Rs 12.97 crores.

The main factors contributing to this encouraging performance are not far to seek. Under the dynamic leadership of Dr Bharat Ram, who was the chairman of the IA in 1967-68 and 1968-69, concerted efforts were made not only towards economising on expenditure through better utilization of men as well as materials, but also for attracting traffic. The airline carried in 1968-69 1.96 million passengers, as against 1 66 million in 1976-68 and 1 41 million in 1966-67. The growth in cargo traffic was from 19,454 tonnes in 1966-67 to 21,289 tonnes in 1967-68 and 23,102 tonnes in 1968-69. The postal mail traffic during the three years was 9,100, 9,931 and 10,206 tonnes, respectively. The total traffic carried in 1968-69 in terms of revenue-tonne-kilometres showed an increase of 13.1 per cent over the traffic carried in the previous year; compared with the traffic carried in 1966-67, it was higher by about 30 per cent. Owing to the capacity of the IA being expanded to a limited extent and that too primarily through rationalising and streamlining of its operations, the overall load factor went up. In 1968-69 it was as high as 73.6 per cent –7.8 per cent more than in 1967-68—as against 46.5 per cent recorded by the world airlines in the domestic sector during this year. On the trunk routes an even higher load factor was achieved.

With the increase in the utilization of aircraft and the staff strength not allowed to go up in a corresponding proportion - in 1968-69, the staff strength was increased only by 2.8 per cent – the utilisation of manpower also improved considerably. This improvement in the utilization of manpower is also evident from the fact that the man-days lost due to work stoppages aggregated only 52½ in 1968-69, as against 31,919 in 1967-68 and 2,744 in 1966-67. The better utilization of resources in 1968-69 and 1967-68, compared to the previous years, helped in restricting the growth in the operation costs of the IA. The operating cost per revenue-tonne-kilometre worked out to Rs 2.50 in 1966-67, Rs 2.46 in 1967-68 and Rs 2.38 in 1968-69.

The spectacular performance of the IA in 1968-69, however, may not be repeated this year, but this will be through no fault of the management. The airline expects to carry 2.2 million passengers this year. However, due to the limited capacity available at present, no increase in cargo traffic is being sought. As a matter of fact some difficulty is being experienced in entertaining orders for charters. The recent stepping up of passenger fares should help in improving the revenue. The main factor which will reduce profitability, however, is the enhanced cost of fuel resulting from the increase in excise and customs duties on aviation fuel effected in February last. The IA is expected to incur this year an additional expenditure of nearly Rs 80 lakhs on this account alone. The net profit for 1969-70 may be approximately Rs 130 lakhs.

The present high load factor of the IA apparently makes it imperative that the capacity of the airline, specially

on the high-density trunk routes, should be expanded expeditiously. The IA, in fact, took up this question with the government over a year ago and recommended that it should be allowed to purchase the DC-9 aircraft. Then followed a whole series of political manoeuvres, punctuated by an episode of alleged corrupt practices. As a result of a fresh review by an experts committee, it has now been decided that the IA should go in for seven Boeing-737 which, after the withdrawal of the DC-9 offer, has been adjudged as the most economic among the four contending aircraft — Boeing-727, TU-154, Boeing-737 and BAC-111 — on such considerations as the future expected growth of domestic passenger traffic, the flow of foreign tourists, the level of air fares, block speeds, load factors, cargo growth rates and the suitability of our airfields. Two aircraft are expected to be delivered by November-December this year and the other five by April, 1971. A high level delegation led by the chairman of the IA, Mr Mohan Kumaramangalam, will be visiting the United States shortly for direct negotiations with the manufacturers on important issues, including import of spares, ground support equipment, etc.

The decision, though taken belatedly, is welcome. As against the trijets 165-seater Boeing-727 and 151-seater TU-154 and the twin jet 96-seater BAC-111, Boeing-737 is a 115-seater twin jet aircraft. BAC-111 obviously would not have suited as its capacity is marginally larger than the present Caravelles. TU-154 is still to be demonstrated. The choice perhaps, therefore, narrowed down to either of the two Boeing aircraft. Boeing-727 has been in commercial flight for nearly five years, but it being a trijet, would have required extension of runways on the regional routes. Boeing-737 has been in service for slightly less than three years. Compared with the other three contending aircraft, its fuel consumption is said to be the lowest. This is a major advantage as because of high fuel prices thanks to high taxation — IA's fuel costs account for as much as 27.3 per cent of its total operating expenses, as against eight to 15 per cent in the case of other airlines the world over. Boeing-737 will not involve any extension of runway whether on the trunk or the regional routes. For the time being it should, therefore, meet the requirements of the IA ideally. But will it be able to do so when Jumbo jets appear on the international scene? Perhaps the Boeing-737 aircraft will then have to be diverted to regional routes and a new larger aircraft will have to introduced on the trunk routes.

Better Balance with Belgrade

THE MINISTRY of Foreign Trade has reason to be satisfied at the conclusion of the new trade and payments agreement with Yugoslavia, which was signed in Belgrade on December 31 by the representatives of the two governments. The agreement has extended the existing rupee payment arrangements between this country and Yugoslavia for two years until the end of March, 1972. Meanwhile, India is reported to have agreed to study the implications of Belgrade's suggestion to have a payments agreement on the basis of convertible currency.

The trend in Indo-Yugoslav trade in 1969 was quite favourable for India when our exports are estimated to have almost doubled nearly to Rs 25 crores compared to the previous year. But it is only by examining the statistics in detail that we shall be able to say in what directions we have been able to achieve a considerable improvement in our exports to Yugoslavia in 1969. It is pertinent to recall that the Indo-Yugoslav trade agreement for 1969 had envisaged exports to go up to nearly Rs 50 crores of which the major items were the following : iron ore Rs 15 million, coffee Rs 30 million, rolled steel products Rs 32 million, pig iron Rs 12 million, wire ropes Rs 15 million, aluminium ingots Rs 35 million, jute products Rs 26 million, tyres and tubes Rs 30 million, cotton textiles Rs 25 million and deoiled cakes Rs 30 million. It will be interesting to know how far these specific targets were reached in 1969. While the export of aluminium ingots was taking place without difficulty, the exports of other major items were said to have met with various kinds of obstacles. For instance, it was reported at one stage that Hindustan Steel was not keen to supply steel products to Yugoslavia because it was able to sell them at higher prices in the free currency areas. The export of tyres and tubes was held up for some months during the last year because of the delay in issuing import licences by the Yugoslav government. The export of our commercial vehicles also faced much resistance because of the pressure exerted by the Yugoslav automobile industry to go slow with these imports. It is understood that the Yugoslav authorities have now clearly informed India about their inability to permit the import of vehicles of less than seven tons. Under the new pact, the trade pattern between India and Yugoslavia in 1970 is expected to be more balanced and our exports are likely to be higher by about 25 per cent as compared to 1969. In the absence of the details of new trade plan, it will be difficult to say to what extent the target will be achieved. It is clear, however, that Indian exporters will have to strive very hard indeed if they are to make further headway into the Yugoslav market. Competition for Indian goods from the western countries is becoming more intense. It is necessary therefore for Indian exporters to give greater attention to quality, prices and other details.

Our exporters should also remember that Belgrade may not retain for all time the concessions that it is now offering to Indian goods. For example, Yugoslav importers are paid a subsidy of 20 per cent on the shipping freight on Indian goods. Moreover, the Yugoslav businessmen who wish to export to India have to import from her goods valued up to 120 per cent of their exports to this country. Belgrade has also drawn up a list of goods to be imported only from the developing countries which is a distinct advantage to India because she alone is in a position to supply most of these goods. Is New Delhi sure that Belgrade will continue these measures till the new agreement expires in March, 1972, especially in view of the steep decline in Yugoslav exports to India in 1969? In the first nine months of 1969 Yugoslav exports to India were valued at only Rs 4.8 crores compared to Rs 10.7 crores in the same period of 1968. It is reported that this slow-down in Yugoslav exports is causing much concern both to the government and the business enterprises in that country.

The new trade pact also envisages further progress in setting up joint ventures. But so far the achievements in this direction have been negligible although the specific fields for such ventures were identified long ago. The governments of both India and Yugoslavia should examine dispassionately what pricesely have been the handicaps and what should be done to speed up progress in respect of joint ventures.

In the context of the new trade and payments pact, the report of the Indian business delegation which visited Yugoslavia in September last year under the leadership of Mr K. K. Jajodia assumes topical importance. The report has highlighted the considerable scope that exists for diversifying Indian exports to Yugoslavia. It has also spelt out the specific measures to be adopted by the Government of India and the Government of Yugoslavia to expand the trade and economic co-operation between the two countries. It has pointed out, for instance, that the trade

agreement for 1969 mentioned only about 100 items as being available for export from India to Yugoslavia whereas the total number of products exported by our country to the various parts of the world is of the order of 3,000. Similarly, the report has suggested that Yugoslavia also should widen the list of the goods that it can offer to India under the trade agreement. This is all the more necessary in view of the falling trend in the Yugoslav exports to our country in recent months. The report also makes several other suggestions such as the provision of facilities to Indian exporters to open offices in Yugoslavia and to hold consignment stocks in the free ports, modification of credit regulations by the Yugoslav government so as to facilitate the import of Indian goods and effective participation by Indian firms in Yugoslav fairs. The Ministry of Foreign Trade should examine these recommendations promptly and implement them as far as possible. The ministry should also adequately publicise the full details of the new agreement among Indian firms, speedily and sympathetically consider their difficulties and give them all reasonable facilities to step up their exports and build up joint ventures.

More Exports to Africa

A MEETING was held recently between the representatives of the Federation of Indian Export Organisations, Export Promotion Councils, Chambers of Commerce and other trade organisations on the one hand and the envoys accredited to 33 countries in Africa on the other to discuss measures necessary for improvement of our trade.

This country has not been able to improve its exports to Africa which had, in fact, risen only marginally from Rs 70 crores to Rs 72 crores between 1966-67 and 1968-69. Imports from Africa, however, have increased from Rs 88 crores in 1965-66 to Rs 148 crores in 1968-69. This has resulted in an adverse balance of trade of the order of Rs 76 crores in 1968-69 as against a nominal adverse balance of Rs 14.06 crores in 1966-67 and an actual favourable balance of Rs 9.48 crores in 1965-66.

The adverse balance of trade has largely been the result of increased imports from the UAR, Tanzania, Congo, Zambia, Uganda and Sudan. As the table below reveals, imports from the UAR increased from Rs 26.90 crores in 1967-68 to Rs 41.41 crores in 1968-69. Similarly imports from Congo doubled in one year to Rs 20 88 crores in 1968-69. Imports from Tanzania increased by more than 50 per cent and those from Zambia increased several fold changing the favourable balance of Rs 1.52 crores in 1966-67 to an adverse balance to Rs 6.98 crores in 1968-69.

This country has been importing from Africa some important items of raw materials such as raw cotton, cashewnuts, copper, rock phosphate and precious pearls and stones. While Sudan and the UAR have been traditional suppliers of quality raw cotton, such com-

INDIA'S TRADE WITH AFRICAN COUNTRIES

(Rs. Lakhs)

Country	1966-67			1967-68			1968-69		
	Imports	Exports (including re-exports)	Balance of trade	Imports	Exports (incl. re-exports)	Balance of trade	Imports	Exports (including re-exports	Balance of trade
Congo (Brz.)	417	9	—4,08	10,49	6	—10,43	20,88	2	—20,86
Ethiopia (incl. Eritrea)	1	126	+125	neg.	112	+112	neg.	225	+225
Ghana	106	197	+91	57	90	+33	212	116	—96
Kenya	589	731	+142	764	604	—160	—671	812	+141
Libya	neg.	69	+69	neg.	113	+113	neg.	145	+145
Malagasay Rep.	7	9	+2	8	5	—3	19	9	—10
Mauritius & Dep.	4	94	+90	5	112	+107	22	132	+110
Nigeria	43	459	+416	67	375	+308	12	308	+296
Morocco	316	27	—289	153	26	—127	168	40	—128
Other East African countries	1,128	38	—10.90	14,29	67	—13,62	17,83	25	—17,58
Seychelles	80	12	—68	91	13	—78	84	15	—69
Sierra Leone	8	60	+52	6	63	+57	120	125	+5
Sudan	17,37	1,457	—280	11,52	2,075	+923	21,50	1,847	—303
Tanzania	13,80	476	—904	11,51	409	—742	17,41	494	—12,47
Tunisia	299	267	—32	39	200	+161	127	145	+18
Uganda	163	188	+25	261	144	—117	4,27	224	—203
UAR	20,30	25,00	+470	26,90	21,53	—537	41,41	21,82	—19,59
Zambia	50	202	+152	275	196	—79	822	124	—698
Other African countries	240	271	+31	236	255	+19	235	310	+75
Total Africa	85,98	71,92	—4,061	94,33	70,18	—24,15	14,822	72,80	—75,42

modities as cashewnuts, precious pearls and stones have been imported to help the exporters to some European and American destinations. Cashewnuts and precious stones are exported after being processed in this country. The imports of copper and rock phosphate have been found essential because of the shortages of these commodities in this country. While this increase in imports from Africa has been useful to our economy and is therefore to be welcomed, it is desirable that it should be matched by a vigorous initiative on our part in selling to African countries.

At present exports from this country are limited to a few traditional items such as tea, jute and cotton textiles. Although some beginnings have been made in the exports of non-traditional items such as engineering goods, chemicals, pharmaceuticals, rayon and silk, yet the extent of rise in the export of these commodities has been rather slow. This state of affairs naturally calls for investigation and the recent meeting between exporters and envoys led to some interesting exchanges on the issues involved.

Certain factors which have hindered the expansion of our exports to African countries include the colonial past which binds the African economies to the former colonial nations. Many of the African countries continue that pattern and find it profitable to maintain it for reasons of avoiding disruption in their economies. Another factor is that the multilateral grouping and associations have been created in Africa and an important one is the East African Community. Similarly, a number of African countries have become associate members of the European Economic Community. To break such barriers requires considerable and persistent effort involving the detailed study of market situations. The plans for economic development in Africa involve the building up of infrastructure facilities such as the erection of power transmission lines, construction of railways and the building of roads and bridges, dams, harbours and airports. Mr Narielwala, President of the Federation of Indian Export Orgnisations, suggested that our strategy should necessarily be to evolve a pragmatic approach from country to country depending upon the changing circumstances. This country should try to secure projects on a turnkey basis by offering competitive terms as that can provide an outlet for the export of valuable capital goods and provide scope for the utilisation of our technical and consultancy services.

The scope for increasing exports of engineering goods to Africa is substantial. At present the main African countries are importing engineering goods worth 5,000 million dollars but this country contributes hardly three per cent of Africa's engineering goods imports, which is a modest share by all standards. In view of the encouraging performance of several engineering goods in various foreign markets, it is essential that more attention is paid to possibilities of stepping up exports of engineering products.

This country has acquired competence in technical and engineering consultancy too in the fields of construction of railways, civil and industrial structures, harbours, road transport and transmission of electric power, which can further help in engineering exports.

In this context, Mr K. Eswaran of the Engineering Export Promotion Council complained that there were inadequate arrangements in this country for the dissemination of commercial intelligence to exporters. He suggested that the Indian embassies in African countries should buy tender documents for exporters in this country on request. It was agreed at this meeting that a scheme should be worked out under which prominent registered exporters would have the facility of receiving tender documents upon request from embassies abroad provided they undertook to deposit a security amount with an appropriate governmental authority in this country.

Another important suggestion was that our envoys in Africa could develop and maintain closer contact with various new commercial and economic organisations and governmental and semi-governmental trading organisations in Africa and also inform the entrepreneurs in this country about the reliability of various African trading parties. It is to be hoped that the conference has helped the envoys to a better appreciation of the needs and expectations of exporters in this country so that they may be able to assist the latter in their export efforts.

GOLD AT DOLLARS 35

S. P. CHOPRA

THE TWO-TIER system for gold prices evolved by the central bankers of leading western countries (including Belgium, West Germany, Italy, the Netherlands, Switzerland, the UK, the USA but not France) in March 1968 has staged a complete victory. According to the new arrangement, the bankers had agreed to support the US policy of buying and selling gold at $ 35 an ounce "in transactions with monetary authorities only." The central banks forming the gold pool declined to supply gold to markets of even monetary authorities which sold gold in private markets.

Thus, the official price was pegged at $ 35 an ounce but the free market price fluctuated according to the laws of demand and supply. In the middle of last year, the market price of gold hovered around $ 42 an ounce but since October 1969 there has been a sharp break with the result that the free market price at the time of writing is almost identical with the official price. This has thrown cold water on the expectations of speculators who had at one time thought that the USA would be obliged to raise the price of gold to $ 70 an ounce. The level of private hoarding of gold had multiplied almost three times in one yea rfrom $ 685 million in 1966 to $ 2,180 million in 1967.

Largest Producer

South Africa is the largest producer of gold in the world (see Table II) and its yearly output is nearly three-fourths of the total world production, excluding the output of the communist countries. Any increase in the price of gold will yield the largest benefit to South Africa (and the USSR) besides the hoarders spread all over the world; conversely, any fall in the price of the yellow metal will hurt South Africa the most. It is the claim of this country that the price of gold should be increased keeping in view the general trend of commodity prices in the world. By their decision of March 1968, the central bankers of the leading countries made it known in unmistakable terms that they would not transact any business in the free market, nor be a party to any increase in the price of gold. It is their thesis that gold, as a monetary reserve, can and ought to continue to play its part at the current official price of $ 35 an ounce. The communique of March 1968 was however silent on the issue of support to gold prices if the market were to dive below the official level.

For almost two years, South Africa has been having discussions with the central banks as well as the International Monetary Fund (IMF) on this question. On the last day of last year, the IMF made it known that it would buy newly-mined gold from South Africa under certain conditions tied to that country's foreign exchange needs. The first result of this announcement will be that the free market price of gold will not slip below the official level of $ 35 an ounce. This agreement is satisfactory both for the world monetary system and the largest producer of gold in the world which has no option but to continue to sell gold in order to cover its chronic deficit in balance of payments. In 1969, the total trade deficit of South Africa was estimated to be around £ 400 million which is likely to exceed £ 500 million in the current year. The central banks are not expected to deal directly with South Africa and will, it is expected, continue to augment their reserves of gold through the IMF.

Speculators alone are not responsible for inflating the demand for gold every year. The rise in population and the gross national product of the world have pushed up the demand of the yellow metal for industrial uses and for the manufacture of jewellery. Rough estimates indicate that about $ 600 million worth of gold is used every year in industrial countries in electrical, electronic and aerospace industries and in the fabrication of gold articles. A sizable part of the privately-held gold flows to developing countries in Asia and Africa where it is used as a hedge against inflation. Tradition-bound societies still absorb fantastic quantities of gold every year (see Table III). In our country, despite various restrictions on the possession of gold and jewellery, its demand has not been reduced: a clear indicator is the free market price of gold which is almost three times the price in the free markets of the world.

France alone among the industrial countries has pursued a policy which at

TABLE I

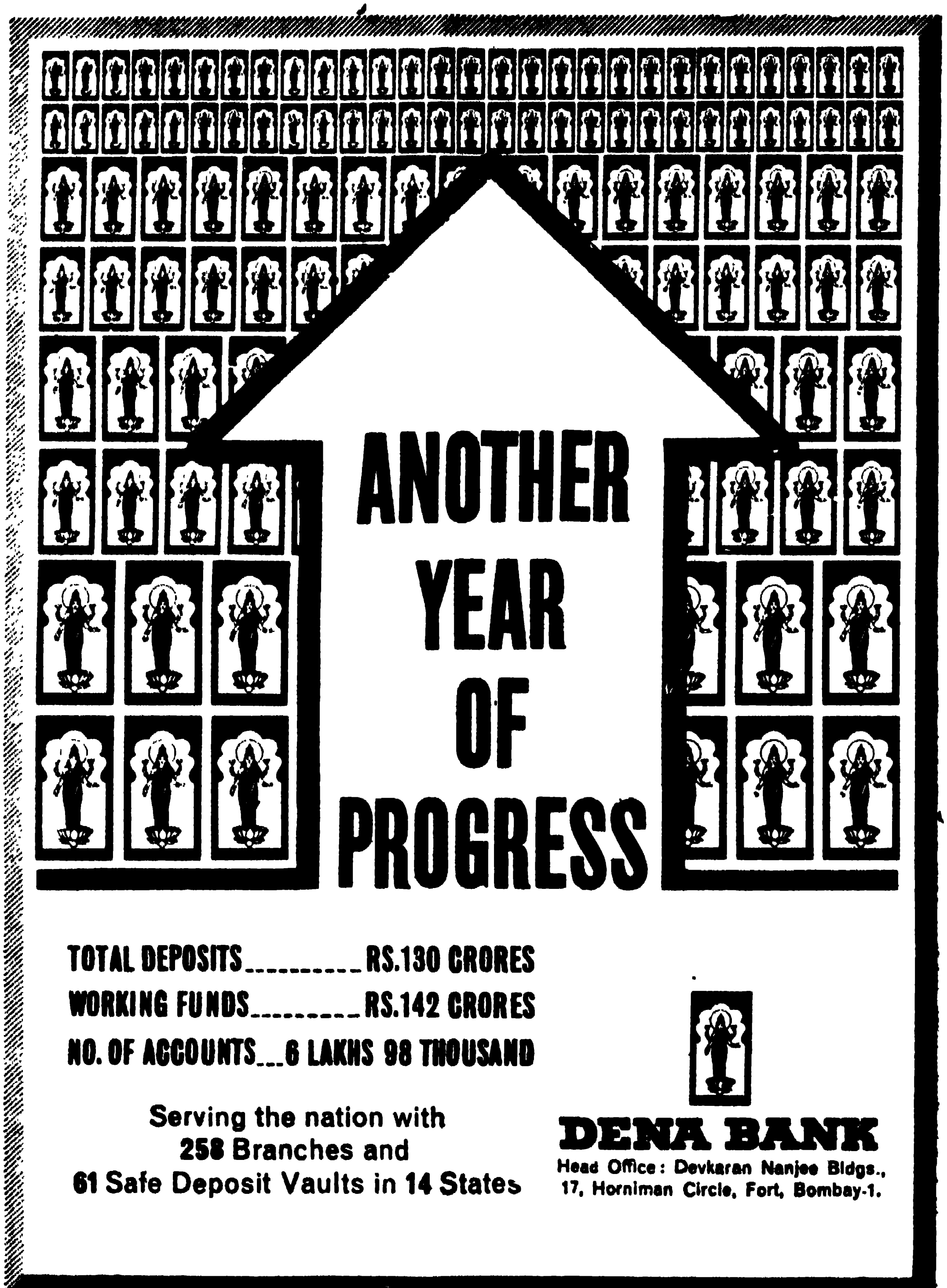
GOLD : MARKETED STOCKS AND DISTRIBUTION BY USE 1966 to FIRST QUARTER 1969

(In millions of U.S. dollars at US $ 35 a fine ounce)

	1966	1967	1968	First Quarter 1969
Production*	1,440	1,410	1,421	340**
Sales by the USSR	—	15	11	—
Purchases by Mainland China	—75	—20	—43	—
TOTAL new supplies	1,365	1,405	1,390	340
Change in countries' monetary gold stock*	—950	—1,400	—580	65
IMF gold transactions@@,@	783	30	—394	7
BIS and EF gold transactions@	121	—209	263	74
TOTAL added to official monetary gold stock* (rounded)	—45	—1,580	—710	145
Residual : supplies absorbed by industry, arts, and private hoarding	1,410	2,985	2,100	195

*Excluding CMEA countries, Mainland China, etc.
**Staff estimates.
@Minus sign denotes net outflows of gold from the International Monetary Fund, the Bank for International Settlements, and the European Fund.
@@Excluding gold placed on general deposit in London and New York totalling $ 254 million at the end of 1966, $ 278 million at the end of 1967, and $ 272 million at the end of 1968.

Source: Annual Report (1969) of the IMF.



RATAN BATRA

IN DELHI our 8 BRANCHES AT :

*Connaught Circus *Chandni Chowk *Subzi Mandi *Karol Bagh
*Darya Ganj *G. B. Road *Chhatarpur *Okhla

times has been a major irritant in international monetary transactions. While all other countries have been trying to downgrade the role of gold and find to other means for liquidity, France alone has been opposed to any international monetary system not based solely on gold. The French government has been asserting that for the establishment of an "equitable, impartial and unshakeable" international monetary system which would command universal confidence, gold is the best medium. It was in pursuance of this policy that France abstained from voting on the South African sales question at the IMF board meeting held on December 30, 1969. The truth is that since 1945, the US dollar has been the effective major reserve currency. However, with continued imbalance in payments for more than a decade, the US dollar came under pressure which reached an acute stage early in 1968.

To show that the mighty dollar was no longer as strong as it was in the forties and the fifties, France took its posture of a worshipper at the altar of gold and succeeded for a short while in making its viewpoint look valid. The concerted action taken by the central bankers and the IMF has however proved that it is not necessary to peg all international transactions to gold, and ways and means can be devised to provide increased liquidity in international trade through other means such as the Special Drawing Rights.

Speculators Lose Hope

The free market price of gold had remained sufficiently above the official price ($ 35 per ounce) for nearly two years because of the attitude of France as explained above and also due to the expectations of the speculators that the USA would be obliged to agree to an increase in the price of gold. The present drop in the free market price demonstrates that the speculators have lost hope of any increase in prices and they have unloaded all the gold which they had purchased in 1967 and 1968 for making quick profits. Investment in gold, it must be realised, does not bring in any dividend except through an appreciation in prices. The interest rates in European countries being high, it is no longer profitable to invest in gold. The only factor which can once again push up the price of gold in the free market is the increasing demand of the yellow metal for industrial uses. If the demand for this purpose turns out to be larger than newly-mined gold marketed by producer countries, the price cannot but rise. According to present estimates, there is not much likelihood of this development.

In our country, gold control has failed in all the three objectives for which it had been promulgated. Neither has the demand for gold dropped nor is there any indication that smuggling operations have declined. At the time of the institution of gold control in this country, the claim was made that gold prices would drop because the stringent law in this regard would wean people away from gold. This has not happened.

TABLE II

GOLD : VALUE OF WORLD PRODUCTION*
1940, 1945 AND 1965 to 68
(In millions of US dollars at US $ 35 a fine ounce)

	1940	1945	1965	1966	1967	1968
South Africa	492	428	1,069	1,081	1,068	1,091
Canada	186	95	126	115	104	104
United States	170	32	59	63	53	53
Australia	57	23	31	32	28	25
Ghana	31	19	27	24	27	26
Rhodesia	29	20	19	18	18	18
Japan**	30	3	18	19	24	22
Philippines	39		15	16	17	18
Colombia	22	18	11	10	9	8
Congo, Dem. Rep. of	20	12	2	6	5	5
Mexico	31	17	8	8	7	6
Others @	157	69	55	50	50	45
TOTAL@ :	1,264	736	1,440	1,442	1,410	1,421

*Excluding the output of CMEA countries, mainland China, etc.
**Figures in the table include gold obtained in refining imported copper ore, which is returned to the ore-exporting countries. Excluding these re-exports of gold the figures would be 30, 3, 13, 16, 18 and 19.
@These figures include estimates for data not available.
Source: Annual Report (1969) of the IMF.

TABLE III

GOLD : MARKETED STOCKS AND DISTRIBUTION BY USE
1956, 1960 and 1965 to FIRST QUARTER 1969
(In millions of U.S. dollars at US $ 35 a fine ounce)

Year	(A) Newly available Gold*	(B) Additions to world monetary stock**	(C) Estimated industrial and artistic use@ BIS	US Bureau of the Mint	(D) Estimated private hoarding@@
1956	1,125	490	165	80	390
1960	1,378	310	265	110	695
1965	1,840	210	465	95	1,070
1966	1,365	—45	725£		685
1967	1,405	-1,580	805££		2,180
1968	1,390	—710	930££		1,170
1969 First Quarter	340££	145	275££		--80

*New Production plus sales by the USSR less purchases by Mainland China.
**Data from *International Financial Statistics*.
@Based on series published by the Bank for International Settlements (BIS), Annual Report, 1966, for 12 countries and by the US Bureau of the Mint for an additional 29 countries not covered by the BIS series.
@@The residual amount, columns A—(B+C)=D.
£ This estimate has been derived from an estimate of $ 500 million given by the BIS, Annual Report, 1968, an estimate of $ 113 million given by the US Bureau of the Mint for an additional 29 countries, and by information received by the IMF from member countries.
££IMF estimate.
Source: Annual Report (1969) of the IMF.

Whereas the highest price recorded in 1964-65 was Rs 72.75 for 10 grams, the rate rose steeply after control was introduced. Gold, in fact, touched a peak of Rs 195 for 10 grams recently but has since dropped to Rs 170 in sympathy with the decline in international prices. Like prohibition, gold control has been a dismal failure in our country. Officially all our demand for gold—even for industrial uses—is supposed to be met from domestic stocks. It is however an open secret tnat the major portion of the demand for gold is met through smuggling which certainly has not ceased to be profitable.

Inter-Firm Comparisons

T. SRINIVASULU REDDY

THE TECHNIQUE of Inter-firm comparisons (IFC) may be defined as a "diagnotic tool which reveals the effect of certain differences in the features and practices of firms on their performance". In simple terms, it is nothing but learning by example. The fundamental assumption underlying IFC is that even the best of firms in an industry, from the angle of total cost or total performance index, may not be the best in every single individual aspect of the process of manufacture, and in some respects, the marginal firm may be better than the best.

IFC can be carried out by a central organisation - a firm or centre specialised in IFC operating on a commercial basis (e.g. IFC centre in the UK) or a trade association or a research association established exclusively for this or in combination with other objectives.

The Objectives

The firms coming together with the intention of sharing information for mutual benefit should specify the objectives of (or) the areas to be covered by the IFC study. Then, the "Centre" or "association" has to collect information regarding various aspects of the participating firms either through questionnaires or direct inspection.

The information thus collected has to be reduced to different sections which are expressed in terms of some well-established ratios. The ratios of each firm are compared with the corresponding ratios of other participants.

On the basis of the findings certain reports are prepared and supplied to the respective firms or companies, highlighting the weak spots and the possible course of corrective action. The ratios that can be used are numerous, but the most important of them are : (1) profitability ratios, (2) investment utilisation ratios, (3) asset mix ratios, (4) growth ratios, (5) cost ratios, (6) inventory ratios, and (7) value added ratios.

Unless perfect secrecy as to the figures and facts supplied by the participants is ensured it will act as a retarding factor to the IFC participation.

However, secrecy can be maintained through allocation of code numbers to participants which appear on questionnaires and other documents, collection of performance data in the form of ratios and percentages rather than absolute figures, presentation of the results of comparisons in such a way that the data of individual firms cannot be identified.

Tying Loose Ends

The top management can be made conscious of 'the loose ends' of their business unit. It informs whether and for what reasons the efficiency of the business is lagging behind that of competitors. In fact, it throws into bold relief otherwise undetected weaknesses in a firm's policy and performance and can act as a powerful stimulant to self-criticism.

Even the best of firms in foreign countries have realised that it pays to know the real secrets — without knowing the names — of the higher performance of competing firms, for such in fact is IFC — everybody is a gainer and nobody is a loser. Without knowing who is who and without the necessity of revealing any secrets of technology or finance or any magic formulae in the monopolistic possession of a concern, every participating management comes to know its own real weaknesses and diseconomies and gets the indications by which it can push its performance to the highest known level in every aspect of resource utilisation. Many a time concentration on certain major aspects rather than comparing each and every minute aspect may be more beneficial, if that area constitutes a major part in total cost, for example, raw materials. Here is an interesting example of the results of IFC.

A metal manufacturing company, in Birmingham, UK had increased its productivity from 8 to 16 lbs of product per man-hour over a period of five years and was very proud of this fact. After taking part in IFC it found that other comparable firms had an output of 30 to 40 lbs per man-hour.

It is heartening to note that the cotton textile industry is one of the short list in which IFC is used extensively. It has been carried out by the major co-operative regional research organisations, viz., the Bombay Textile Research Association. (BTRA), the Ahmedabad Textile Industries Research Association (ATIRA), and the South India Textile Research Association. (SITRA). The first IFC was made by ATIRA as early as 1952.

Startling Variations

Some of the major revelations are that the average operative hours to produce 100 kg of yarn (HOK) in spinning adjusted to 40s count is about 70.0 in SITRA member-mills on an average (SITRA research report 1969) which is about five times that of a modern American mill. The variation in labour productivity between mills under SITRA is very high. It differs by about 400 per cent and the machine productivity by more than 100 per cent. It is claimed that labour productivity in the member-mills of ATIRA in 1968 was higher by about 80 per cent when compared with that of 1952[1].

However, it seems that the target of IFC in these research centres is not the right one. The emphasis should always be on that phase which offers the maximum potential for cost reduction. Material cost in the cotton textile industry forms 65 per cent of the total cost and significant economies can be achieved without any resistance, unlike labour costs, if spotlight is turned to this area to expose weaker spots. In fact at the present juncture of ever increasing cotton prices and uncertain supply of fine varieties, this point assumes greater significance.

The following extracts can show that the concentration of IFC centres around labour costs and other technical aspects rather than the most important area, viz., material.

"From 1962 onwards, ATIRA started conducting IFC studies on labour and machine productivity in the spinning department on a regular annual basis."[2]

"At present, the technique is being

employed in ATIRA in the following areas.

(1) Labour and machine productivity in the spinning and weaving departments.

(2) Labour costs in the spinning departments,

(3) Consumption of accessories in the spinning and weaving departments.

(4) Consumption of chemicals in the sizing section.

(5) Yarn quality, and "fabric quality.."[3]

"In BTRA, inter-firm comparisons of financial aspects and others such as on labour productivity and consumption of chemicals in bleaching and mercerising have been carried out.".[4]

The SITRA is no exception to this trend and its director, Mr K. Sreenivasan, while commenting on productivity in textile industry and inter-firm comparisons, points out : "Higher labour productivity assumes greater significance particularly because labour cost is not only one of the most important factors affecting profits, but it is also one that is amenable to control".[5] But experience has shown that concentration on labour costs and productivity has had no effect in improving the operative efficiency of the industry as a whole. Hence there is a need to re-orient the fundamental approach to the problem:

Important Ratios

It is of vital importance that IFC in the cotton textile industry should be oriented towards 'materials'. The important ratios pertaining to material are:

(1) *cost of raw material consumed/* quantity produced;

(2) *cost of scrap*/cost of raw materials consumed;

(3) *quantity of scrap*/quantity of raw materials consumed;

(4) *quantity of raw materials consumed*/man hrs/machine hrs;

(5) *cost of raw materials consumed/* man hrs/machine hrs; etc.

In the wake of mounting troubles of acquiring the precious superfine varieties of imported cotton, substitution of material is of utmost importance.

The ratios to measure import substitution are :

(1) Cost of imported material/ total cost; and

(2) Quantity of imported material/ total quantity of raw material.

The rare feat of eliciting *active* co-operation of the member-mills for IFC is achieved by the research centres. However, if the malady of the industry continues and the mills do not find any substantial benefit, their interest in IFC will be subdued. Combined and co-ordinated efforts are necessary to materialise the potentialities of IFC.

Experts in western countries have refined IFC to an imposing matrix of capital-output ratios, with all manner of permutations and combinations. Techniques such as constant dollar technique[6] are also used. There are also proposals for inter-country firm comparisons (ICFC). To cope with these latest developments, centralised efforts are unavoidable.

Considerable Difference

There is considerable difference between the performance of mills in different regions, and the reasons for the differences and possible course of corrective action can be found only when the IFC is carried out on a countrywide basis.

Table I shows the value added on the Rs 100 input in Gujarat, Maharashtra, Madras and West Bengal in the category of spinning, weaving and finishing of textiles.

Value added represents that part of the value of the production which is created in the factory. It is a good yard stick to measure the relative efficiency of the industry between different firms or regions.

On the basis of the above arguments, we may claim that a centre for inter-firm comparisons on an all-India basis is the need of the hour in the cotton textile industry.

The success of such a centre depends, to a large extent, upon the strength and competence of the body that takes up the work and there is no other suitable organisation than the Indian Cotton Mills' Federation (ICMF).

Supplemental Efforts

Recently, the ICMF has established a fullfledged organisation called Cotton Development Research Association, to solve the raw material problem. It should be supplemented by efforts to conserve the materials and eliminate wastages as far as possible.

A separate centre for IFC with main emphasis on the area of raw material and secondary emphasis on other important aspects such as labour productivity, machine productivity, etc., can go a long way in increasing the productivity of the industry as a whole.

To solve the problem of expertise, the help of such institutions as the National Productivity Council, and the Department of Business Management of the University of Delhi, which have done a considerable amount of work in this field, can be procured.

Information can be supplied by the mills to the respective regional research associations, which, after reducing information into comparable ratios, on a common method developed by the centre, can submit these to the centre. The centre in turn can make compari-

TABLE I

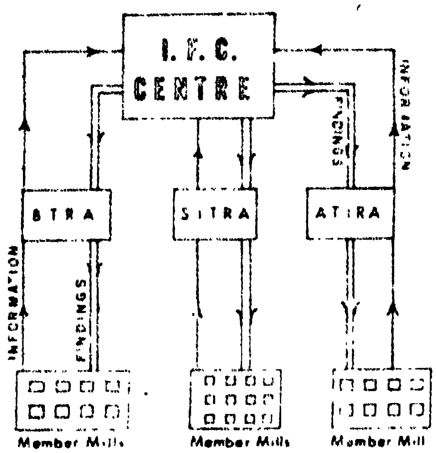
VALUE ADDED IN SPINNING, WEAVING AND FINISHING OF TEXTILES

(Rs per Rs 100 input)

State	Year 1961	1962	1963	1964	1965
Gujarat	54	44	43	42	42
Madras	47	43	55	39	34
Maharashtra	53	52	48	55	44
West Bengal	27	41	41	36	31

Source : J.D. Kale, Research Officer, Bureau of Economics and Statistics, Government of Gujarat, Ahmedabad, in *Productivity* magazine, July-Sept, 1969.

sons and submit reports to the mills through these research associations.



There is no doubt that the technique of IFC can improve the position of the industry from the present state of gloom and enable it to contribute substantially to the stability of national economy, simultaneously strengthening its own position.

References :

[1]P. V. Bhave, IFC, in Cotton Textile Industry, The *Management Accountant*, Calcutta, July 1969. p. 398.

[2]Ibid.

[3]Ibid.

[4]BTRA : Its Origin and Growth; *ICMF Journal*, Feb. 1969, (p. 817).

[5]K. Sreenivasan, Productivity in Textile Industry, *ICMF Journal*.

[6]Mr Hiram S. Davis, Director of the Department of Industrial Research, of Pennsylvania, has developed it.

Forward Trading in Bombay Stock Exchange

SHRIKRISHNA VANJARI

THE RECENT strike by the jobbers and brokers of the Bombay Stock Exchange in protest against the governmental prohibition of forward trading in debentures and shares of joint stock companies is symptomatic of the mishandling on the part of the union Finance Ministry, of the situation created by a group of individual operators cornering shares of selected companies in anticipation of abolition of the company managing agency system. The strike has since been called off in expectation of effective intervention and action that could meet legitimate grievances of the stock brokers.

The recent as well past history of the Bombay Stock Exchange shows that it had tided over worse crises, including the total collapse of trading following the Chinese and Pakistani invasions of the border region. As a result mainly of wise and tactful handling of these situations by the Finance Ministry, there was not a single failure in settlement of transactions, despite the steep fall in prices of shares. It demonstrated what could be achieved through cooperation of the kind that has existed between the Stock Exchange Association and experienced and efficient officials of of the Finance Ministry of the Government of India.

Nearly 100 years ago, the historic 'share-mania' created by an extraordinary boom for Indian cotton during the American Civil War with its sea-blockade that starved the Lancashire textile industry of cotton supplied by the American south, laid the foundation of Bombay's industrial progress and prosperity. Cotton exports earned about Rs 85 crores in bullion. The cheap and plentiful money also produced a craze for floatation of all kinds of companies. The aftermath came inevitably about 1872 when there was a spate of financial failures, bankruptcies and even suicides. It was during the share-mania that some of the stately public buildings, hospitals like the J.J. group, art school, etc, were constructed and the great Premchand Roychand raised the Bombay University Rajabai tower. The money financed also textile mills of Bombay and Ahmedabad, mining and other industrial enterprises.

The Bombay share bazar was, of course, directly involved. While the boom lasted, shares of certain companies were purchased with premiums as high as between 60 per cent and 100 per cent. There were only 40 brokers in the local share bazar in 1855 and their number went up to 250 in 1860 that was gradually reduced when depression followed the boom. But the brokers who remained in business themselves took the initiative and established their Native Share and Stock Brokers' Association in 1875. The brokers restricted their activities to raising capital resources for sound and economically useful industrial enterprises.

The leadership of the Bombay share bazar was followed by other industrial cities and the organisation of the market built up and subsequently perfected served as a model on a countrywide scale. Similar stock exchanges were established in Ahmedabad, in 1880, and in Calcutta, in 1908. These exchanges have known and experienced both booms and depressions culminating inevitably in failure of some brokers. On the eve of World War I, there were many failures of banks and its impact was felt by the stock exchanges.

When World War I came, the stock exchanges closed down with the initial shock. But the sea-blockade of the war created new opportunities for establishment of some key industries and the industrial growth continued also in the post-war period. Between 1920 and 1924, attempts had been made by some unscrupulous operators in the stock exchange to corner shares, but their attempts failed. In revenge, they built up a smear-campaign and crusade against the Bombay Stock Exchange. As a result, the Atlay Stock Exchange Enquiry Committee was appointed in 1923. The committee recommended a standard set of rules, bye-laws and regulations to the state government. On the basis of the recommendations of the committee was introduced the Bombay Contracts Control Act, 1925, under which governmental recognition was given to the Bombay Stock Exchange. The Ahmedabad Stock Exchange was recognized similarly under the same Act in 1939.

Improved Rules

When, subsequently, the Bombay Stock Exchange formulated listing requirements for joint stock companies and approached government for their approval, the move was opposed by some of the companies. This led to the appointment of the Morrison Stock Exchange Enquiry Committee in 1936 and, on the basis of the committee's recommendations, the proposed listing requirements were approved and, at the the same time, the rules and regulations of the stock exchange also improved with a view to regulating and controlling trading in securities and protecting the interests of investors.

World War II produced the same or similar effects on the stock exchange that had been produced by World War I. But it produced a tonic effect on industrial shares, as industries were pressed into service of the all out 'war effort' that was also to culminate in wearing out of our railway system and denudation of our teak forests. The phase of war-time boom in the share bazar lasted up to 1949. The general increased industrial activity naturally produced its effect on the stock exchange. But the Bombay and other stock exchanges had to share the

world postwar slump and the depression continued between 1946-1948. Then came the notorious Liaquat Ali Khan budget of Government of India, 1947-48, with its oversize burden of taxes and the exchanges slumped. During the subsequent years, the situation was retrieved as, under implementation of the five-year plans, the tempo of industrial activity increased in both public and private sectors and its favourable effect was felt in the stock exchanges in the country.

The stock exchanges also reacted to the Chinese and the Pakistani invasions of India's border region. But the shock was absorbed with the capacity for resiliency exhibited by the Bombay Stock Exchange in similar crises, as already stated. During and after the declaration of national emergency, there was increased taxation. But there was also the programme of development and defence preparedness that was found favourable for the stock exchanges.

Unsettling Effect

When, under rule 94-C of the Defence of India Rules, carry-over activities in the stock exchanges were prohibited and only ready delivery, to be completed within seven days from the date of contract was permitted, it produced an unsettling effect on shares. Government, therefore, appointed an adviser for exploring regulations for the stock exchanges. On the basis of his recommendations, an expert committee was appointed with Mr. A. D. Gorwala, the then Secretary to the Government of Bombay in the Finance Department, as chairman while its members included presidents of the Bombay, Calcutta and Madras Stock Exchanges. The committee's recommendations were implemented and the Securities Contract (Regulation) Bill of 1951 was drafted. This became law in 1956.

While piloting the bill in the central legislature, Mr C. D. Deshmukh, admired for his intimate knowledge of, and pragmatic approach in, financial and economic affairs, had pointed out that the element of speculation does not become gambling and is necessary as an incentive for investors whose motive is making profit for purposes of capital formation. What the law sought to achieve was the safeguarding of the interests of investors. In the light of this view of an administrator respected for his astuteness and sense of realism, the forward trading does not become a form of, or forum for, gambling, as the operators active in the market would not care to buy or sell shares if there were no prospects of making a profit, irrespective of whether they earn or lose money in the transaction. The process of forward trading involves attraction of savings transformed in shares as a trading commodity and capital gains.

As regards the bull and bear raids, they are universal. So far as our country is concerned, the Life Insurance Corporation and the Unit Trust operate on the stock exchange with a view to restoring a healthy trend in the market and stimulate industrial activity and also earn profit of investment, so that, today, the dangers of bear and bull activity have been considerably reduced. If even all the existing safeguards in the form of the laws in regulation of stock exchange business were found insufficient effectively to deal with the menace

of unscrupulous operators, the correct approach would be to make the law fool-proof and not close down the forward market which certainly has its advantages and benefits.

Moreover, recently, important banks in the country have been nationalised, so that it would no longer be possible for unscrupulous operators to secure sizable credit from the banks for large-scale cornering of shares of particular industrial companies. Stock exchanges exist and function in all countries, that is to say, with the exception of communist countries. Even when the country accepts any socialist pattern in the sense undoubtedly of a welfare state, the stock exchanges could function as a useful and necessary institution for building up a capital market under conditions of a mixed economy.

Stock exchanges serve government, municipal corporations and other institutions for underwriting loans floated by them. Capital for modern industry cannot be raised without the participation of the stock exchanges. The brokers in the stock market are performing a useful social function and are not just parasites, inasmuch as they advise their clients over the manner in which they should invest. Some of them do the underwriting and also procure finance for private industry. It is a legitimate, useful and socio-economically productive activity.

Uniform Law

The law regulating the stock exchanges is now uniform for the whole country and is, of course, capable of improvement, if, in the course of its working, any remediable flaws are detected. In recent years, the officials with expertise of the stock exchanges have had the Company Law amended in such a manner that concentration in possession of shares of joint stock companies has been broken up successfully.

According to a Reserve Bank of India survey, the number of shareholders in the country is 90 lakhs. As high as 98.8 per cent of the investors are individuals and they hold shares of the value of 40 per cent of the total paid-up capital of the companies. As high as 90 per cent of these investors hold shares of a value that is less than Rs 5,000. According to a study carried out by Dr L. C. Sharma, 50 per cent of shares are held by individual investors, 25 per cent by private joint stock companies and the remaining by financial institutions such as the Life Insurance Corporation of India (10 per cent) and foreign investors.

Holding of shares could also be diffused if the scope of operations of the existing recognised stock exchanges located in important cities and numbering eight, *i.e.*, in Bombay, Calcutta, Delhi, Ahmedabad, Madras, Madhya Pradesh, Hyderabad and Bangalore were extended to cover rural areas through licensing of brokers operating in and for such areas. It should bring stagnant savings of well-to-do agriculturists and social strata in rural areas into the capital market for the benefit of national economy.

As it is, the regulations for notifying floatation of new joint stock companies and reserving percentages of total shares for members of the general public have produced the desired results of wide distribution of shareholding and end of monopoly for a privileged class. The figures of shareholders for years 1952, 1960 and 1966, reported by Mr P. S. Nadkarni, who possesses long experience of company and stock exchange laws as well as of the Bombay Stock Exchange, reproduced below should speak for themselves in testifying to the accuracy of this statement.

NUMBER OF SHAREHOLDERS OF VARIOUS COMPANIES

Name of Listed Company	Number of Shareholders 1952	1960	1966
Tata Iron & Steel	28,410	70,000	71,126
A. C. C.	25,415	44,067	48,094
Scindia Steam Navigation	31,000	39,432	38,749
Central Bank	23,263	24,707	26,534
Tata Chemicals	10,138	14,881	17,097
New India Assurance	..	16,694	17,580
Bank of India	8,459	10,154	13,012
Bombay Burmah	6,959	8,873	11,782
Tata Power	7,446	10,723	10,341
Union Bank	6,040	8,056	9,727
Orissa Cement	..	8,191	8,510
Voltas	..	6,586	8,295
Tata Mills	2,604	4,919	9,653
Swadeshi Mills	2,690	3,693	4,128

Eastern Economist 25 Years Ago

JANUARY 19, 1945

A team of Indian industrialists will shortly be visiting Australia, and a delegation of Australian industrialists will pay a return visit to this country before long. It will be recalled that some weeks before Sir Bertram Stevens, formerly of the E.G.S.C., suggested the visit of Indian industrialists to Australia to study the prospects of increased trade after the war. There are certain special factors which would seem to point to a considerably increased volume of Indo-Australian trade after the war. In the first place, the war, by bringing about the cessation of trade with enemy countries, conservation of shipping and co-ordination of resources and needs in a common effort, has encouraged the mutual dependence between Australia and India which geography would dictate; and this is likely to extend into peace. In the second place, price control in Australia, which has been more successful than perhaps anywhere else, gives her goods a competitive advantage which India will do well not to miss. Whereas in the USA, the UK, Canada and South Africa the cost of Living had by May, 1944, shown a rise of more than 30 per cent on the basis 1939—100, in Australia it stood only at 110.

WINDOW ON THE WORLD

THE ECONOMIC OUTLOOK FOR 1970

JOSSELEYN HENNESSY

LONDON:

THE LATEST half-yearly *Economic Outlook* (published by the OECD., 21 rue Andre Pascal, Paris 16) which looks forward to 1970, begins by pointing out the important developments which have transformed the international economic situation since the review's July issue. The slowdown of economic growth in the USA has become clear to see. The UK's balance of payments has strengthened markedly. And the French and the German parity changes will help establish a better pattern of balance of payments on both current and capital accounts.

In the OECD area as a whole the growth of output in 1969 seems to have slowed down a little to about 5 per cent reflecting restrictive policies in the USA and in the UK. In many other countries, expansion has accelerated, creating high demand pressures. Both in the USA and other countries, the pace of price inflation has increased.

For 1970, with policies in almost all countries directed to disinflation, a year of below-average growth seems likely. International trade also seems likely to slow down. It seems to have been rising at the unusually fast rate of over 15 per cent. In 1970 the increase might be about .0 per cent—an average rise.

The policies responsible for this slowdown will be judged by the extent by which the price rise decelerates—there is normally some time-lag before price movements respond to falling demand pressures—by the speed with which payments imbalances are reduced, by the course of interest rates and, above all, by the ability of national authorities to avoid recession.

I

DEMAND MANAGEMENT

Most observers agree that the USA, France and the UK all need to maintain restrictive policies in order to restore internal and external equilibrium. This implies a diminution of the external demand supporting other countries; and normally these countries could be expected to respond by stimulatory measures. But since most of them also need to damp down their internal and cost pressures, some general reduction of growth rates in 1970 seems to be appropriate. At the time of writing, the risk of a cumulative downturn seems less than the risk of continuing inflationary tendencies.

Developments such as are indicated by the forecasts in Table I cannot be called a recession. But how much risk is there of recession developing unexpectedly? One danger might be that countries were failing to allow for the repercussions on them of developments in other countries: in fact, however, countries' forecasts appear reasonably self-consistent. But they are based on the expectation that the middle of the year will see a revival of growth in the USA; and there could - unexpectedly—be an abrupt downward shift in US business sentiment. Moreover, when policy is formulated, governments should not forget the fact that prices are likely to respond to falling demand pressures only with some time-lag: restrictive action additional to that now generally envisaged, while bringing little immediate improvement in price performance, would increase the risk of recession. Trends in several of the major countries are likely to be crucial.

In the United States cost and price trends may be on the verge of weakening following the easing of demand pressures. The rather disappointing experience to date mainly reflects cost pressures generated in earlier boom conditions. But widespread doubt as to the success of the stabilisation programme may also have played a part. Demand has so far been resilient and recent investment surveys show that intentions remain strong. The possibility of a significant absolute fall in demand and output in the next six months or so cannot be excluded; the situation depends heavily on business confidence, as reflected in fixed investment decisions, retention of labour and especially stockbuilding, factors which could change quickly. But demand, notable in house building, should respond quickly, if necessary, to an easing of monetary policies.

By mid-October, unemployment had not risen above 4 per cent, still inside the acceptable limits. At this stage, it seems more important to guard against premature relaxation of policies—which could sacrifice the chance of improved price performance than against the danger that reflationary action might be delayed too long. Evidence that price increases are slowing down is still

TABLE I

SUMMARY OF UNDERLYING TRENDS

Percentage changes annual rates seasonally adjusted, July forecasts in brackets

	1958 to 1967 Average	1968	1969 I	1969 II	1970 I	1970 II
REAL OUTPUT (GDP or GNP)						
United States	4.6	5	2½(3)	1¾(1½)	½(2¼)	3¼
Other OECD	5.8	6½	7½(7)	7(5½)	5½(5)	5½
TOTAL	5.2	5¾	5(5)	4(3½)	2¾(3½)	4¼
Prices (GNP deflator)						
United States	1.8	4	4¾(4½)	5*(4½)	3¾(3½)	3¾
West Germany	2.9	2	2¾(3)	4(3½)	5(3½)	3
Other OECD	3.6	3¾	5(4½)	5(4)	4½(3¾)	4¼
TOTAL	2.5	3¾	4½(4)	5(4)	4(3½)	3¾
OECD Trade (values)						
Imports	9.4	12¾	15¾(13½)	15¾(9½)	7(8½)	7¾
Exports	8.9	12¼	15¾(13¼)	16½(9½)	8(8½)	7¾

*Includes the federal pay rise in mid-1969.

Source: OECD *Economic Outlook for* 1970.

limited. And if real demand follows the rather smooth path of deceleration and renewed acceleration at present envisaged, the extent to which price trends will improve will, for some time yet, remain uncertain, especially as numerous wage agreements are to be negotiated in the coming year. In the long run, adequate price performance may depend as much on what the OECD euphemistically calls "the development of new attitudes" towards the appropriate size of increases in money wages as on demand management alone.

Other O.E.C.D. Countries

Most other OECD countries are likely to see some fall in the pace of expansion between 1969 and 1970. In practically all countries, policies are now directed to keeping the growth of demand in line with—or below—the expected growth of productive potential, and this may continue for some time to come. This is clearly true of France and the UK. The situation is less clear, however, in some countries which have up to now, enjoyed particularly strong current balance positions—especially West Germany and Italy.

West Germany

Conditions in West Germany will have an important influence on business attitudes in surrounding countries. During 1969, demand rose faster than anticipated. The economy was clearly beginning to strain at capacity limits by the summer, though neither the trade balance nor consumers' prices were by then substantially affected. For the next few months, large outstanding orders and new large wage increases will probably keep demand pressures very high; and as cost increases work through, prices could rise fast by past standards. But there could be a chance in sentiment affecting, in particular, business investment. The capital outflows resulting from the DM revaluation have already provided some tightening of monetary conditions, though the authorities have partially offset the effects by easing banks' reserve requirements. The probable fall in the real external surplus, and any further tightening of monatary conditions, should lead to easier demand pressures in the course of 1970—though it is difficult to predict how rapidly conditions might change.

Italy

Italy is the main country in the OECD area where a noticeable margin of slack persists (though in some industries, particularly construction, demand pressures have been high). On the assumption that more normal conditions are quickly re-established, domestic demand seems likely to grow strongly, with a rise of perhaps close to 15 per cent in the wage bill between 1969 and 1970. Apart from making up shipments delayed by strikes, exports are likely to rise less fast than they did in most of 1969 because of the general deceleration of world trade. The risks of excessive real demand pressures do not seem very great. And though there could be an immediate problem in absorbing rather large and sudden wage increases, Italy's present cost position relative to those of other countries seems sufficiently favourable to enable the wage increases to be borne without serious loss of competitiveness.

Japan

In Japan, the recent tightening of monetary policies was a reaction to symptoms of faster-rising costs and prices rather than to the persistence of high interest rates overseas. The spring wage-round yielded the biggest wage increases for about twenty years and wholesale prices rose faster in the summer, partly because of higher import prices. The pace of expansion seems likely to slow down somewhat, with less impulse from exports, leading to some easing of demand pressures. This might, in turn, permit an easing of policies, with the aim of maintaining about a normal rate of growth of output.

Smaller Countries

In most smaller OECD countries, demand pressures are currently quite high. Policies, especially monetary policies, have become more restrictive both for domestic reasons and, defensively, to keep pace with the general rise of interest rates. Faced with a prospect of more widespread disinflationary policies in major countries, smaller countries may well play for safety in their policies. But neither balance of payments constraints nor internal cost pressures seem, in general, to call for substantially new policies. Countries particularly dependent on trade with West Germany seem, however, likely to experience some net addition to demand or cost pressures and this may call for offsetting action. The unilateral tariff reductions and other steps effected by Austria are useful examples of how to combat additional price pressures.

II

PRICE INFLATION

The price rise in 1968 was already well above that for the previous decade. In 1969 there was a further acceleration in which all major countries shared. Some slowing down of the rate seems in prospect for most countries. But the general price rise in 1970 is likely to remain well above average : among the major countries, only the UK and possibly Japan are likely to see increases close to past average rates. Elsehwere the rate of increase may remain rather large by past standards. Both West Germany and Italy may see the general price level rising faster as a result of larger wage settlements.

In the USA, the behaviour of prices is largely explained by cost increases following from recent excess demand pressures, though a continuation of inflationary expectations may also be playing a part. The acceleration has affected world trade prices, and has also contributed to price and wage increases in Canada, which have not yet responded satisfactorily to disinflationary policies. In many other countries unit labour costs benefited until recently from the upswing in activity; but, with scope for cyclical gains in productivity largely exhausted, stronger pressures on costs and prices have now developed. In the coming months, rather rapidly increasing prices may have to be accepted while underlying demand pressures are in the course of being corrected by the present disinflationary policies.

Role of Incomes Policy

Despite the obvious difficulties, most (though not all) governments believe incomes and prices policies have a role to play. It is clear, however, that no incomes policy can possibly work during a period of inflation. If an incomes policy has any use, it is not as an emergency expedient, to be introduced when quick results are needed, but rather as an adjunct to policy in a longer perspective.

Over the longer period, significant differences are likely to re-emerge between the rates of price rise that individual countries will in practice accept as tolerable. Such differences in attitudes have an important bearing on the problem of securing a balanced growth of world trade. The problem can be further complicated by the important structural contrasts between countries which lead to differential price developments in domestic and export markets.

III

PAYMENTS PROSPECTS

Changes in relative demand and cost pressures, and the changes in the French and West German exchange rates are likely to lead to an improved pattern of international payments which may nevertheless not yet reach, in some instances, the full balance of payments adjustment desired. On present policies, the USA current account should swing from deficit (effectively caused by strikes early in 1969) to some surplus; the

trend of the UK's current account should remain favourable; that of France should strengthen. Counterparts would include a major reduction of West Germany's current surplus; some fall in that of Italy; and a reversion of the smaller OECD countries generally to more normal, less favourable, positions. The French and West German parity changes should virtually eliminate speculation in foreign currency markets.

TABLE II

CURRENT BALANCES

Estimates and forecasts

$1,000 million

	1968	1969	1970
United Kingdom	—0.72	0.70	1.2
United States	-0.28	—0.60	1.5
France*	—0.86	—1.30	0.2
West Germany	2.84	1.50	0.4
Italy	2.64	2.45	1.8
Canada	—0.09	- 0.65	- 0.8
Japan	1.05	2.20	2.0
Total seven countries	4.58	4.30	6.3
OECD current balance with Rest of world†	3.7	3.9	5.4

* Transactions with non-franc countries. OECD estimates for the first half of 1969.

† Roughly estimated by the OECD

Source: OECD *Economic Outlook for* 1970

Forecasts for current balances of individual countries are subject to large margins of error, especially in view of the recent parity changes. The combined effects of these on other countries' current balances may, by and large, be offsetting—though some countries particularly dependent on trade with West Germany, such as Austria, stand to be affected.

Much of the substantial improvement suggested for the UK was probably obtained by the end of 1969. Some further improvement can be expected so long as no undue relaxation of domestic demand management policies takes place, though there seems likely to be comparatively little additional effect from the 1967 devaluation, either on exports or imports. For France, improvement in the immediate future may depend mainly on the reduction of domestic demand pressures; but the benefits of the devaluation (and of the DM revaluation) should progressively be felt. The changes forecast in both the US and the West German balances reflect the very different conditions that each expects in 1970. In West Germany, the effects of revaluation should be supplemented by the persistence into 1970 of above-average demand pressures. In the USA, on the other hand, improvement of the current balance would take place at a time when demand pressures were tending to become lower than would be considered desirable in the medium term. Canada's position seems likely to be somewhat less satisfactary then in the recent past. Italy is likely to ranain in large current surplus, though at a lower level then recently. Japan's strong surplus position seems unlikely, on present trends, to be much reduced in 1970.

IV

MONETARY PROSPECTS

In the first three quarters of 1969 increasing monetary tightness in the USA led to an unprecedented pull of funds through the Euro-dollar market. Waves of speculation led to recurrent large inflows—and subsequent outflows—of funds to West Germany. Monetary conditions were tightened generally in other OECD countries. A feature of the year was the enlarged capital outflow from Italy. The revaluation of the DM had already led by mid-November to a substantial reflux of capital from West Germany. The tightening of West German monetary conditions caused by the outflow was only partially eased by relaxing banks' reserve requirements. Interest rates on the Euro-dollar market, after an initial fall, rose again in November.

In the period ahead, the pattern—and scale—of capital flows may depend largely on developments in domestic monetary policies. So long as stringent monetary conditions are maintained in the USA this should continue to exert some pull on external funds. The fact that outstanding Euro-dollar liabilities of US banks have not on balance risen markedly since mid-July (they have fluctuated around $ 14,000 million) might, however, suggest that further large net inflows, such as occurred earlier in 1969, are now less likely. At some point, the US authorities will wish to ease monetary conditions, if only moderately. If other countries were then anxious to maintain relatively stringent conditions -- whether for balance payments or domestic reasons—the pattern of monetary forces and international capital flows would change again. Despite improvement of the United States' current account, the official settlements position might well be less favourable than in 1969. The overall payments positions of other OECD countries would then be further strengthened.

Such developments might generally be regarded as acceptable in the context of other trends in the coming period. But the speed with which very large amounts of capital move from one area to another underlines the limitation

that needs sometimes to be imposed on the use of monetary policies for domestic demand management. To the extent that external considerations effectively limit the use of monetary instruments, the need to have alternative fiscal instruments readily available is all the greater. A further consideration is that interest rates as high as at present have disadvantages not only for OECD countries but for developing countries as well.

Sources and Acknowledgements : The foregoing summarises the 100 pages of the OECD's *Economic Outlook for 1970*, but the OECD is responsible neither for the emphasis of my summary nor for my comments based on a variety of sources.

Common Market : Busy Year Ahead

E. B. BROOK

VIENNA:

THE YEAR 1970 having got off to an uncommonly good start, the overall mood in business and finance in Europe is unusually reassured.

There was a whole spate of cheerful developments at the end of the year. The International Monetary Fund announced provisional agreement on the distribution of the quota increases which come into effect this year and which will raise its loanable resources by about 35 per cent to almost \$ 29,000 million The Fund also reached agreement on a solution of the old dispute over sales of newly-mined South African gold. Partly as a result of these good tidings, the £ rose above parity for the first time in nearly two years and the French franc began to look a good deal healthier.

But the most significant development that came in with the new year was the beginning of the Special Drawing Rights scheme (SDRs) which, though it lost a little of its impact, and may lose more, by the agreement on the South African gold sales, is the first time the world has had an international currency, independent of any national authority, one that is not backed by gold (though it has a nominal gold value guarantee) and which can be increased by international negotiation.

Since the closing of the Gold Pool in March 1968 the only source for new international liquidity was foreseen to be through increases in the IMF's loanable funds which would be implemented either by bigger quota subscriptions or increased distributions of Special Drawing Rights. This expectation has been put somewhat out of joint by the steady increase in the American deficit and by the fact that the year's-end agreement with South Africa has again made possible increases in official monetary gold holdings.

This unforeseen development has not shaken Europe's new year optimism very much since it is thought the breach in the SDR system will probably be minimal as South Africa will not, as a general rule, be able to sell its gold to national central banks but mostly on the free market and, in case of need, to the IMF. Bankers here do not expect that South Africa will often have need to sell outside the free market and any gold it sells to the IMF will automatically be at the service of the international community.

The Special Drawing Rights, international finance's gift to the new year, are exclusively for the use of central banks and are a book entry currency only, hedged around by multiple restrictions and usable only in order to acquire foreign exchange from other participating countries.

Generally speaking, the combined effect of the distribution of Special Drawing Rights and the increase in the International Monetary Fund's quota will be to give a bigger deliberate increase in official liquidity than has been seen for a very long time. It should help to lessen the gap between the requirements of international trade and national monetary reserves. The increase this year in liquidity will be \$ 3,500 million in SDRs and \$ 5,700 million in IMF quotas. It may very well be more than is necessary since the American deficit is now over \$9,000 million and the Eurodollar market has expanded to over \$ 40,000 million.

The new arrangements for South African gold sales are expected to reinforce the position of the US dollar in the course of this year since the new possibility to increase the metallic component of its reserves should provide the US with additional protection against dollar conversions. The French have objected to the African gold sales agreement because they allege it alters the provisions regarding sale of gold contained in the original Bretton Woods Articles of Agreement and institutionalizes the two-tier market system. But the new pact is no more than an understanding on how member countries propose to behave and does not, for this reason, change their basic rights under the Bretton Woods Agreement.

The second reason for the more assured mood in Europe is that the Common Market is able to view its future with more confidence. There are loose ends in the agreement reached before Christmas on agricultural finance to be tied up. Two of them are particularly important, the Market's agricultural surpluses and provision for closer economic and monetary co-operation.

The agricultural surpluses are the Market's most serious, pressing and scandalous problem. These huge accumulations of butter and other products are liable to involve the Market in huge wasteful expense if nothing is done about them and are fast becoming a huge storage burden.

Blind Opposition

But the dilemma lies, as it always did, in the blind, obstinate opposition to all progressive proposals put forward by the Brussels Commission by French and West German small-sale farmers, both of them the most inefficient farmers in the Community. West Germans, the main contributors to the Market's agricultural fund, are determined to cut the costs and the French insist that no link exists between the financial negotiations and the surplus problem. The far more efficient, farm-wise, Dutch and Italians, insist, however, that the two are definitely linked and it remains very much a question whether the Market's financial agreement will be ratified by national parliaments unless there is some action on reducing overall agricultural costs.

The Market's Council meets again in mid-January to discuss this problem once more and the possibility of improving co-operation in economic and monetary matters. The Council is expected to give final approval to the Barre plan involving closer co-operation in economic planning as well as short-term and medium-term financial assistance in case of monetary difficulties. It is proposed that this plan should be only the first step in a process leading in time to the creation of a European currency, of which M. Jean Rey, the Secretary-General, has spoken optimistically. Once the Barre plan has been approved further proposals will be made for the creation of a European reserve fund and of a stabilization fund designed to prevent excessive fluctuation.

There will be Market activity also on technological co-operation early in

February, with Britain and other non-Market countries participating; new arrangements for the Market's nuclear energy section, Euratob; research into industrial co-operation ; the enactment of a new company law applicable anywhere in the Community and abolition of barriers to mergers across national frontiers.

Altogether, it is going to be a busy year for the Common Market, not least, probably late in June, when it gets down once again to negotiations on the British application for membership.

Czechoslovakia Plans for 1970

'ARTHIKEYA'

AFTER PUTTING down all inter-party differences with an iron hand and achieving a cohesion and unity in the ranks of the ruling Communist Party of Czechoslovakia, the leadership is now engaged in tackling problems of the economy, because, in the words of the Czechoslovak Federal Planning Minister, Mr Vaclav Hula, "the economic consolidation in this country is the main condition for a political consolidation."

The economy is really in a very bad shape. The crisis which opened the door of revolt against the highly centralized, directive bound leadership of the then supreme leader Antonin Novotny in January 1968, got unfortunately deepened during the political turmoil of the last year. Wide laxity in management, decline in working morale and loosening of work discipline complicated the old structural imbalances even further.

Domestic Tension

Consequently, even the modest objectives of the 1969 economic directives of the Czechoslovak government were not attained to the full extent. The industrial production rose slightly in excess of 5 per cent, while the directive assumed a 7 per cent rise. Productivity was up by only about 4.5 per cent as against the planned 5.8 per cent. On the other hand, average nominal wages which were expected to show a 4.3 per cent increase only, grew by a full 6.5 per cent.

While the creation of the national income proceeded at a slower rate, an excessive growth of the monetary incomes of the population generated a strong pressure on the spending from the national income. In 1968, private incomes went up by 20,500 million Czechoslovak crowns and in 1969 by another 23,800 million crowns. This is the main cause of the present tension on the domestic market.

Undoubtedly, the structural changes could hardly be effected immediately. It would require long-term planning. The efforts of the leadership are therefore directed towards improvement in management and boosting up of productivity. The federal Czechoslavak Parliament in December passed many new laws which might look harsh in normal times. For example, the amended Labour Code would enable not only dismissal of a bad worker, but also claims to compensation for damage caused by his bad work, would be made upon him. In some cases, non-fulfilment of work instructions might lead to prosecution.

Central Planning

The new measures also underline the importance of central managing institutions. They stress once again the function of the central economic plan in which the state maintains the right of the highest instance. In specific production branches the state prescribes directly definite production tasks.

The Planning Minister has, however, assured that any interference of the state in the enterprise sphere will respect the independence of the enterprises themselves and will therefore be restricted only to such instances which could cause disharmony between the requirements of the society and the programme of the enterprise.

With attempts to pacify some of the abnormal features, the Czechoslovak planners have put quite modest objectives for the year 1970. The general social production is to go up by roughly five per cent, practically the rate attained in 1969. It shows that the authorities do not wish to put undue stress and strain on the working people and want to restore normalcy very cautiously and patiently.

The basic intentions of the 1970 plan in the field of industry are characterized by the following data: rate of growth of gross output in industry 6.5 per cent; rate of growth of exports of industrial products 7.2 per cent; rate of growth of goods supplied to the market (including foodstuffs) 5.4 per cent.

To fight the inflationary pressures, the plan envisages with growth of personal consumption the slowing down of wage developments. The requirement of the volume of wages will be reduced from the average achieved in the years 1967-1969 by roughly 50 per cent, which is in keeping with the planned output.

Further, the plan envisages a 26 per cent increase in housing construction compared with the envisaged figures of 1969. According to the plan, 108,700 flats will be commissioned, 19,000 more than in 1969.

Foreign Trade

The increase of Czechoslovak exports in 1970 is one of the keys for dealing with the situation in other branches of the economy, says Czech Deputy-Minister of Planning, Dr Jan Vintera writing in the trade union daily, *Prace*. According to the plan, Czechoslovakia's exports are to increase by 5.5 per cent compared with last year, while imports are to be raised by 4.6 per cent.

While export targets to western countries are on the whole being fulfilled, the situation is different as regards the socialist countries. Dr Vintera says, "Towards the end of 1967, we were creditors to the socialist countries, today we are their debtors. We used to have a favourable balance in normal goods exchange and, apart from this, were able to pay in advance towards deliveries of raw materials. Today, we have difficulties in meeting the terms of the annual protocol and are not punctually making deliveries under credit agreements."

The tension in balance of payments with the neighbouring countries is further increased by the possibility of increased deliveries from the Soviet Union, especially of consumer goods, this year. These deliveries were discussed during the latest talks of the Czechoslovak Communist Party delegation in the USSR.

Therefore, the 1970 plan intends to curb the drawings on credits in the socialist countries. At the same time strict austerity policy is to be effected in imports from the socialist countries.

The Czechoslovak leadership is gearing the entire organisational apparatus of the ruling party for fulfilment of these economic tasks. Slovak *Pravda* emphasizes, "When the party cards are to be exchanged in the first half of this year, every member of the CPCz will be assessed not only by his political attitude and political activity, but also how he fulfills his duties at work, how actively he participates in implementing the party's economic policy."

The moving finger writes

IT IS high time that the issue of security arrangements for persons holding public office had been rationally reviewed. In my view, certain minimal security arrangements, determined by the police or other authorities concerned, should at all times be provided for the President of the Republic, the governors and lieutenant-governors, the three service chiefs, the Chief Justice of India and the chief judges of high courts, the Prime Minister of India and the chief ministers in the states. I wonder whether it would really be necessary for the powers that be to add many more holders of public office to this list which, in any case, should be kept as short as possible. In all other cases, security arrangements should be made only when the police or other authorities concerned have reasonable ground for believing that a threat to person exists. In the case of those holders of public office for whom minimal security arrangements are provided as a matter of course, any additional or special security precautions may be in order only when a threat to person is made or feared. This extra protection should naturally be limited to the requirements of the situation and to the period during which the threat may be deemed to constitute a real risk. The formula I have outlined here seems to me to be a sound and acceptable one since it attempts to harmonise the reasonable requirements for security of persons holding certain vital or strategic public offices with the expenditure which the tax-payer may reasonably be expected to bear for providing this security.

Judged in terms of this formula, the central and state governments are probably overspending appreciably on this 'security' business. The Prime Minister's security bill, about which some disclosures have been made by the Chief Minister of Uttar Pradesh, seems certainly to be an unconscionable one. The position is not improved by the fact that a good part of the 'security' bill is, in fact, expenditure not strictly connected with security. It is, of course, true that Mr Gupta may not have raised the issue at all but for the split in the Congress party. In any case, now that the cat has been let out of the bag, it is not going to be an easy task for those concerned to cajole the creature back into hiding. The least that could be done to prevent an unsavoury controversy from becoming a malodorous mess is for the central government to release state governments from the obligation of meeting the Prime Minister's 'security' bill when that personage is touring the states and to charge this expenditure to the central budget in the form of a separate demand for grant to be voted specifically by Parliament. This way, party or factional politics could be kept out of the issue of the Prime Minister's security to some extent. And what is equally important, it may be easier for public opinion to enforce a desirable degree of austerity on this item of expenditure.

* *

The literature of various political parties has lately been crammed with concern for the expansion of the economy through increased production and investment. How sharply their prefessions differ from their practices was demonstrated by the 48-day-old strike in the engineering industries in Jamshedpur. According to Mr J. R. D. Tata, the only 'gains' of the strike, which involved 30,000 engineering workers, was a production loss of Rs 25 crores, a loss of Rs 2·5 crores in wages and other monetary benefits to workmen, a loss of Rs 5 crores in revenue to the government and, last but not least, a setback of Rs 2·5 crores in exports. All these sacrifices, as Mr Tata pointed out, were made simply at the altar of trade union rivalries fuelled by the struggle among political parties to acquire control over the labour movement in Jamshedpur. Mr Tata identified the two communist parties, SSP, PSP and a dissident faction of the INTUC as the actors in this drama of gross irresponsibility.

The Patna correspondent of *The Hindu* makes the interesting point that the faction of INTUC involved in the strike was led by Dr M. K. Akhauri, a member of the AICC of the Indira Gandhi group. Dr Akhauri had the dubious distinction of functioning as the chairman of the co-ordination committee of the five political parties which launched the strike and it was indeed he who gave the call to strike even as tripartite talks were going on at Patna among the representatives of the workers, managements and the state governments. Although this is Dr Akhauri's record in the sad episode, I doubt that Mrs Indira Gandhi or her associates in New Delhi, including that saintly mentor of the INTUC, Mr Gulzarilal Nanda, will be at all interested in taking the good doctor to task for his anti-national activities. Then there is Mr Karpoori Thakur, Chairman of the SSP, who lent his authority and sympathy to the strike by fasting for 13 days. Mr Thakur was Chief Minister of Bihar and may well become Chief Minister of that state again. Such are the strange ways of our politics.

* *

The report that the Governor of Bihar desires to relinquish office and retire into private life immediately after this Republic Day prompts me to reflect on the generally successful manner in which Mr Nityanand Kanungo has been discharging his gubernatorial responsibilities in Bihar. I would, in fact, rate him and Mr K. C. Reddy, Governor of Madhya Pradesh, and Mr B. Gopala Reddi, Governor of Uttar Pradesh, as among the three most satisfactory holders of the office of governor over the years. They have had to deal with one taxing or tricky political situation after another and it is my general impression that, in the process, they have displayed qualities of firm, just, patient and tactful leadership. It is worth noting that none of these three governors had been particularly sparkling in his previous political career. Some may even say that they were all rather mediocre in their performances as ministers of the central government. Could it be that the very absence of the more aggressive virtues, which might have come in their way then, proved to be a blessing when they were called upon to function above the warring political factions of the day? Whereas that brilliant administrator, Mr Dharma Vira, contributed not a little to the messing up of the political situation in West Bengal during the time of the first United Front ministry, this rather dull and drab trio of politicians, namely Mr Kanungo and the two Reddys, have been discharging their gubernatorial responsibilities almost with a touch of genius. The highest tribute that may be paid to them is that, by and large, they have shown themselves to be men of independent judgment not amenable to pressures, whether local or from the central government.

* *

A correspondent, who describes himself as "a small pharmaceutical producer", complains of waywardness and unfairness in the administration of the Drugs Price Control Order by the Ministry of Petroleum and Chemicals. According to him, a product manufactured by him was ready for sale in April, 1968, but he has not been able to market it so far because the ministry has refused to approve the maximum retail price for which he has applied. He alleges that the ministry has arbitrarily closed his case without giving him any valid reason and without showing him where his costing has been found to be defective and that the only explanation vouchsafed to him is that he has not gone to New Delhi personally to present his case.

This correspondent also asserts that the ministry concerned is far more helpful when dealing with the bigger pharmaceutical firms and he has given what he says are instances of the very liberal manner in which this ministry has dealt with applications from the bigger manufacturers for the approval of maximum retail prices for their products. He concludes that, in administering the Drugs Price Control Order, the Ministry of Petroleum and Chemicals is discriminating against small manufacturers even to the extent of harassing them, while showing undue favours to bigger companies who, in his words, "have got good salesmanship with the Petroleum Ministry" and "can get any price approved, whether there be price control or not". V.B.

Trade Winds

BOEING 737 FOR I.A. FLEET

THE UNION government has accepted Asok Mitra Committee's recommendation to sanction the purchase of seven Boeing-737 jet aircraft, for Indian Airlines fleet expansion, by April 1971. The 115-passenger plane cruises at 580 mph. The committee has recommended the plane on economic and technological considerations. The Boeing manufacturers have assured the delivery of two planes this year and five more by April 1971. The total cost of the planes, including spares and ground support equipment will be Rs 33·35 crores, of which Rs 30·32 crores will be in foreign exchange. Six more of these planes will be required between 1972 to 1976.

GUJARAT CONVENTION 1970

Gujarat Chamber of Commerce & Industry is organising Gujarat Businessmen's Convention on January 17 and 18. This convention is the second of its kind in Gujarat and will provide an opportunity to get together those engaged in commerce and industry on a common platform for discussion of the problems of mutual interest, ensure effective medium of focussing attention on the general difficulties experienced by businessmen, highlight the developmental problems at the state and district level, promote spirit of constructive enterprise among the younger generation and foster greater and more co-ordinated organisation of business community all over the state. Mr D.C. Kothari, Vice-President of the Federation of Indian Chambers of Commerce & Industry, New Delhi, will inaugurate the Convention and Dr Bharat Ram, President of the International Chamber of Commerce will be the chief guest on this occasion. Mr. Hitendra Desai, Chief Minister, Gujarat state has consented to be the president of the inaugural session of the convention.

ABS DELEGATION

Dr Hermann Abs, Chairman of the Deutsche Bank, has come to this country as a leader of a delegation of high level West German businessmen and bankers. Dr Abs was also a member of a mission which visited this country in 1960 on behalf of the World Bank, and is regarded as a good friend of this country and other developing countries. The delegation comprises 11 other members drawn from industry, financial institutions and chambers of commerce. They are: Dr Peter von Siemens (Vice Chairman, Siemens AG), Mr Otto Wolff von Amergongen (President, Deutscher Industrie und Handelstag (Federation of Chambers of Commerce and Industry), Dr Joachim Zahn (Chairman, Daimler, Benz A.G.), Mr Guenter Vogelsang (Chairman, Fried Krupp GmbH), Mr Toni Schumecker (Chairman, Rheinische Stahlwerke), Mr Hans Reintges (Director, Farbwerke Hoechst), Dr Jur Gerhard Prinz (Director Volkswagenwerk AG), Dr Jur Paul Adolf Stein (Director, Robert Bosch GmbH), Mr Cai Graf zu Rantzau, (Director, Dresdner Bank A.G.), Mr Robert Dhom (Director, Commerzbank A.G.), Mr H. E. Bachem (Director, Kreditanstalt fuer Wiederaufbau) and Mr Von Hernier—Aide to Dr. Hermann J. Abs. During the stay in this country from January 11 to January 26, the delegation would be visiting Bombay, Baroda, Poona, Madras, Bangalore, Visakhapatnam, Jamshedpur and Rourkela, before coming to Delhi for intensive discussions with ministers and officials of the Economic Ministries and Planning Commission. The main objective of the visit is to provide an opportunity for the members to get a first-hand idea of economic situation, industrial achievement and future prospects as well as to explore jointly the possibilities for increasing German investment and collaboration in this country.

Among the Aid-India consortium countries West Germany stands next only to the United States in the quantum of aid given to this country. Till the end of June 1969 the total authorisation of West German aid to India came to Rs 856·7 crores, of which bilateral loans accounted for Rs 842·9 crores and grants for Rs 13·8 crores. West German economic assistance forms more than 9 per cent of the total economic assistance received by this country. There are nearly 400 industrial projects in the private sector which have benefited from West German technology. There is considerable scope for further German investment in this country. Some of the fields for such investment are petrochemicals, fertilisers, pesticides, electronics and specialised machinery items to mention a few. A new field which again offers considerable potential for Indo-German collaboration is in the establishment of joint ventures in third countries.

DELEGATION FROM DENMARK

A delegation from Denmark headed by Mr K. Helveg Petersen, Cabinet Minister of Cultural Affairs, Technical Co-operation with Developing Countries and Disarmament Questions, Government of Denmark, arrived in New Delhi on January 5, 1970, on a week's visit. The other member of the delegation was Mr F. B. Howitz, Head of the Department of Bilateral Projects, Secretariat for Technical Co-operation. The delegation visited this country to gain a first hand impression of the working of the Danish-aided projects and acquaint itself with the cultural life of the people here. The delegation also visited Danish-aided projects in Bangalore and Trivandrum apart from meeting union ministers and some officials of the government. The total value of the loans received so far from Denmark is Rs 13·5 crores. These comprise three general purpose loans and two food loans.

INDO-IRAQ CO-OPERATION

The expansion of trade and economic relations between this country and Iraq was discussed recently at a meeting between the Minister for Communication of Iraq, Mr. Adnan Ayoub Sabri al-Izzi and the Minister for Foreign Trade Mr B. R. Bhagat. These discussions were understood to have been of a preliminary nature and centred round possibilities of increased purchases by this country of raw materials from Iraq, greater exports to Iraq particularly in regard to infrastructure equipment and industrial products and the prospects for setting up joint projects. The possibility of this country participating in the construction of the Bagdad-Syrian railway line is understood to have figured in the discussions. The delegation also called on the Minister for Petroleum and Chemicals, Dr Triguna Sen and made an offer to supply crude oil even on a barter basis. Dr Sen was told that in addition to surplus supplies of crude oil, Iraq would be in a position to offer considerable quantities of sulphur. The Iraqi Minister was accompanied by a team of seven officials.

LOKANATHAN REPORT

For effective implementation of the Industrial Policy Resolution, the Lokanathan Committee has recommended that all items which are technically and economically feasible to be produced in the small-scale sector should be excluded from the delicensing programme so that the capacity in the larger sector does not develop to the detriment of the small-scale sector. The committee has recommended that delicensing of industrial items which are being manufactured adequately and substantially in the small-scale sector at present should be cancelled. The committee has also recommended that excise duty on products of the small-scale sector should be accorded preferential treatment. Besides, special assistance should be provided to enable the small-scale sector to utilise the export potential which is developing. The committee is of the opinion that this would help in broadening the base of operation of small-scale units and also in canalising the flow of new investments in large-scale undertakings to areas requiring the use of sophisticated technology or relatively high level of mechanisation and automation. (Details of the report have been given in Records and Statistics section of this issue).

STEEL PROGRAMME

The Minister of State for Steel and Heavy Engineering, Mr K. C. Pant, disclosed at a press conference here last week that the steel manufacturing capacity would have to be doubled in the next 10 years even if the overall growth of the economy during the fourth and the fifth Plan periods were to be only about six per cent per annum. This would mean the setting up of either a million-tonne steelworks annually or a two million-tonnes plant every alternate year.

In view of the fact that it takes about seven years for constructing a steel plant in this country and another two years for running it to full capacity, Mr Pant emphasised that the steps to expand the steel manufacturing capacity would have to be taken right now. The Ministry of Steel, he revealed, had put forth several proposals to the Planning Commission for inclusion in the fourth Plan so that the requirements of the latter half of 1970s could be met judiciously. These are ·

(*i*) The second stage expansion of the Bokaro steelworks to four million tonnes should be taken up by the government immediately without waiting for the completion of the first stage during which capacity to the extent of 1·7 million tonnes ingot steel is to be established. According to present indications, the work on the first stage of Bokaro will be completed by March, 1973.

(*ii*) The Bhilai steel works should be expanded from 2·5 to 4·2 million tonnes. At present it is being expanded to 3·2 million tonnes. The additional one million tonne capacity proposed for this steelworks will include the setting up of a plate mill,

(*iii*) With a view to diversifying the product pattern of all the three existing public sector steel plants at Rourkela, Bhilai and Durgapur and for bringing down their cost of production through the better utilisation of capacities, technological improvements, installation of balancing equipment, etc., should be taken up.

(*iv*) A CRGO sheets mill should be set up at Rourkela (these sheets are used in the manufacture of transformers).

(*v*) The Durgapur alloy steel plant should be expanded at least to double its present capacity

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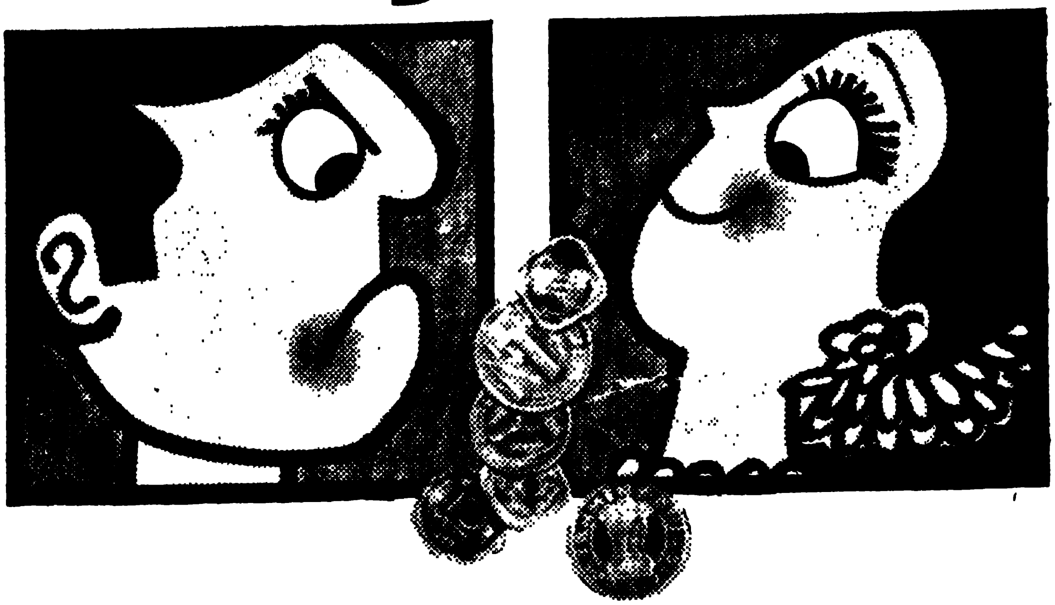

through the installation of balancing equipment at certain points. This will include the setting up of a cold rolling mill to yield thin stainless steel sheets.

(*vi*) Bhadrawati steelworks in Mysore should also be expanded judiciously from its present capacity of 77,000 tonnes of special steels.

The two other proposals which have been put forth are: (*i*) the setting up of a new refractory unit in the public sector, and (*ii*) a seamless tube plant at Bhilai.

If these proposals of the ministry are accepted by the Planning Commission, the outlay for steel in the fourth Plan will have to be raised from Rs 326·42 crores (as proposed in the draft) to Rs 560·25 crores.

Mr Pant further stated that there was no proposal at present to expand the Rourkela and the Bhilai steelworks from their present capacities of 1·8 million and 1·6 million tonnes respectively. The proposed additional outlay, however, included some funds for completing during the fourth Plan the preliminary work in the fifth public sector steel plant.

HINDUSTAN STEEL OUTPUT

The production of salable steel from the three steel plants of the Hindustan Steel Ltd during 1969 was 2·74 milion tonnes, being 7·8 per cent higher than the 2·54 million tonnes level achieved in 1968; despatches of salable steel also increased from 2·70 million tonnes to 2·89 million tonnes in 1969 representing a rise of 7·0 per cent. Similar upward trends were observed in the production of hot metal (pig-iron) and steel ingots, totalling 4·47 million tonnes and 3·76 million tonnes in 1969, the corresponding figures in 1968 being 4·27 million tonnes and 3·67 million tonnes respectively. The Alloy Steel Plant at Durgapur also improved its performance remarkably by producing 60,400 tonnes of ingot steel and 33,100 tonnes of finished steel during 1969, as compared to 31,300 tonnes of ingot steel and 18,400 tonnes of finished steel in 1968.

JETRO

Primary products exhibitions of developing countries are being organised by Japan External Trade Organisation (JETRO) in their exhibition hall in Tokyo. Four such exhibitions are held in each fiscal year and during 1969-70, the products of Colombia, Afghanistan and Yugoslavia have been exhibited. This country has now been invited to exhibit her products and this exhibition will be held from January 16 to January 27, 1970. India's Deputy Minister for Foreign Trade, Chowdhary Ram Sewak, has been invited to inaugurate the exhibition. A list of the goods being exhibited by this country include engineering goods, processed food and tobacco, handicrafts and textiles.

EXPO'70 PARTICIPANTS

Apart from several countries, four international organizations, one city and two private enterprises will also take part in the Osaka World Exposition, according to the Consulate-General of Japan, Calcutta. The names of participating countries are: Canada, the Republic of Korea, the USA, the Republic of China, the Netherlands, Zambia, the USSR, Belgium, Hongkong, Federal Republic of Germany, Switzerland, New Zealand, Australia, France, Bulgaria, Kuwait, the United Kingdom, Cuba, Turkey, Portugal, Thailand, the Philippines, Algeria, Mexico, Denmark, Norway, Sweden, Finland, Ethiopia, Laos, Burma, Greece, Dominican Republic, Saudi Arabia, Czechoslovakia, Ceylon, Tanzania, Ivory Coast, Indonesia, Iceland, Ghana, Cyprus, Madagascar, Uganda, Singapore, Gabon, Pakistan, Guyana, India, Chile, Vatican City State, Republic of Vietnam, Colombia, Nepal, Equador, Peru, Italy, Central Africa, Argentina, Brazil, Nigeria, Abu Dhabi, Iran, Malaysia, Afghanistan, El Salvador, Cambodia, Haiti, Venezuela, Malta, the UAR, Monaco, Nicaragua, Panama, Costa Rica, Uruguay, Mauritius and Japan. Others that will take part are: The United Nations, OECD, the EC (European Communities) and the Asian Development Bank; the Provinces of Quebec, British Columbia and Ontario (Canada); the States of Washington and Hawaii, the City of San Francisco; Eastman Kodak Co. and American Park Corp, (the USA).

WORLD BANK LOAN

The Punjab government has told the World Bank that the supply of 8,000 tractors to be imported against a bank loan should be routed through the State Agro Industries Corporation. The bank is believed to favour their sale through private firms. The state government has a waiting list of 20,000 tractors and its mechanization drive is held up for want of more tractors. The state had asked the bank for a loan to import 20,000 tractors, but the bank team, which visited Punjab recently has recommended a loan for 8,000 tractors.

AIRLINES CARGO CHARGES

BOAC in common with all IATA airlines operating into and out of Britain, is to increase charges for certain freight handling services as authorised by a recent IATA resolution. Charges which were unanimously agreed by the meeting of IATA airline representatives in the UK came into effect on January 1, 1970, and cover such services as storage, delivery, documentation other than airway bills, customs, clearance, etc, on cargo entering or leaving the UK airports. A BOAC spokesman pointed out that airlines had been providing such services below cost for a considerable time and the purpose of revised charges was to provide efficient service to shippers and agents requiring it.

ASSISTANCE FOR D.V.C.

The Ministry of Irrigation and Power has sanctioned one crore rupees to the Damodar Valley Corporation as central government's share of capital expenditure for the year 1969-70. This brings the total amount of central government's share so far sanctioned to the Corporation to Rs 55·09 crores. This is exclusive of the amount advanced by the Ministry of Finance to meet the dollar expenditure financed from the International Bank for Reconstruction and Development. The amount carries interest at the rate of 5½ per cent per annum.

FINANCE COMMISSION

This country needs a permanent Finance Commission to influence development and redistribution of resources among the states said Mrs Ursula Hicks recently. She was speaking on centre-state financial relations at the Reserve Bank recently. Mrs Hicks added that reliance on crude population data for deciding on devolution was defective as rich states might be as populated as poor ones. She favoured a link-up of devolution with "committed expenditures by the states, including investment in education, as in Nigeria. One defect of the distribution system in this country was its relatively low emphasis on redistribution.

F.C.I. EXPANSION

By mid-seventies, the Fertiliser Corporation of India expects its units to produce two million tonnes of fertiliser. This promise was held out recently by FCI Chairman, Mr Satish Chandra. According to current anticipation, the FCI expects to produce 855,000 tonnes of fertilisers by 1971 when its expansion plans for Durgapur, Barauni and Namrup will be complete. In addition to these projects under implementation, the FCI has on hand another 1·2 million tonne capacity for which the government's approval has been obtained. These are the Sindri rationalisation scheme, Trombay and Nangal expansion and the new plants at Talcher, Ramagundam, Haldia and Korba.

TRADE WITH U.S.

The Indian Minister for Foreign Trade, Mr Baliram Bhagat and Mr K. B. Lal, Secretary of the Ministry of Foreign Trade, are to visit the US later this month for talks with the US government and private trade interests on ways to improve bilateral trade between the two countries.

AROMATICS PLANT AT BARODA

The foundation-stone of the giant aromatics plant near Baroda will be laid by Dr Triguna Sen, union Minister for Petroleum and Chemicals, on January 24. The public sector project, envisaging an investment of about Rs 30 crores, is expected to be commissioned by early 1972. All plans and designs of the various units of the project have been finalised in technical and financial collaboration with a West German firm.

ADDITIONAL TEXTILE SPINDLES

In the light of the demand from a number of mills for additional spindles either for purposes of balancing or for reaching an economic size, the Committee of the Indian Cotton Mills Federation, Bombay has requested the government that no additional spindles be sanctioned to any mill, except to the extent of 300 spindles per mill. In recommending this to the government, the committee took into account the fact that the spindle activity in each of the three shifts was to the extent of 90, 90 and 69 per cent respectively in 1964 which subsequently went down in 1969 to 76, 76 and 62 per cent. In spite of such fall in spindle activity, and consequently in the production of cloth and yarn, there was no dearth of cloth and yarn. On the other hand, the supply position of cotton continued to cause great anxiety.

SALE OF H.M.T. MACHINES

The Hindustan Machine Tools has entered into a sales agency agreement with Messrs. Larsen & Toubro for marketing die casting and plastic injection moulding machines of Buhler design to be manufactured by HMT in technical collaboration with Messrs. Interfonda Limited, Uzwil, Switzerland. Hitherto these machines which have been imported were marketed in the country by Larsen & Toubro. The HMT factory at Bangalore will take up production of these machines soon and the first batch of Indian built die casting machines will be ready for delivery this year. HMT plans to offer these machines in 160 and 250 ton locking pressure capacities. The machines which are of the direct injection system, are also known as fast cycling machines.

FERROUS METALS IMPORT

The union government has agreed to import Rs 10 crores worth of ferrous metals from the USA to relieve the acute shortage of these materials in the small-scale sector, Mr M. S. Parthasarathy, Vice-President of the Federation of Association of Small Industries in India stated recently. The imports would be under US aid scheme. The metals would be distributed through the various state corporations of small industries.

PHILIPS EXPORTS

Philips India Ltd, recently exported to West Asia a consignment of radio components, starter components, electronic measuring instruments, fluorescent tubes and flashlight lamps

valued at approximately Rs 13 lakhs. With this the company's volume of export during 1969 has nearly reached Rs 80 lakhs. During 1969, Philips India had exported products to Egypt, Iran, Sudan, Syria, Lebanon as well as to Singapore, Kuala Lumpur and Hong Kong in the Far East and to Europe and Australia.

PUBLIC SECTOR EXPORTS

The public sector engineering units will contribute Rs 5 crores to the Foreign Trade Ministry's crash programme to secure an additional Rs 70 crores exports to achieve the target of seven per cent growth in exports for the current year. This was the consensus reached at the meeting of the representatives of these units with the Minister of Foreign Trade, Mr B. R. Bhagat, on January 8. A meeting of a dozen of these units has been called to involve them in the export promotion drive. The ministry will be holding similar meetings with more of such units and export organisations soon.

COIR EXPORTS

Exports of coir and coir products touched a total of Rs 14·2 crores in 1968-69 against Rs 13·2 crores in 1967-68. In the first six months of 1969-70, they reached Rs 5·7 crores. A spokesman for the Coir Board, which recently held an exhibition of coir products at Stadium House, Bombay stated that there had been considerable diversification of coir products recently. Instead of traditional products like coir mats and mattings, carpets and rugs, the industry was now producing a variety of articles from rubberised coir fibre. With the establishment of factories for the specialised production of these goods, coir fibre was now beginning to play a vital role in the industrial field.

SYNDICATE BANK LOAN

The Syndicate Bank, one of the nationalised banks, launched a novel scheme of personal loans to dock workers on a mass scale. The scheme is intended to help the workers to avoid borrowing from moneylenders and develop savings habit. Under the scheme, dock workers belonging to the Tamil Nadu Port and Dock Workers Welfare Association, a trade union, will receive personal loans up to Rs 500 without tendering any security. The loans carry an interest of 8½ per cent and are repayable in easy instalments ranging from 24 to 36 months. The loans are given on the specific understanding that repayments will be deducted from the workers' salaries by their employer, the Madras Stevedores Association.

UNITED BANK ASSISTANCE

By way of its own contribution towards making the rice procurement scheme of the Government of West Bengal a success, United Bank of India granted loans amounting to Rs 20 lakhs to some 20 government-partnered co-operative rice mills located in different districts of the state.

PROFIT ELEMENT IN U.S.S.R.

The Soviet Union has taken an important step towards a freer economy by adopting a "new method" of determining wholesale price of industrial equipment. The measure, published in Izvestia, injected the "profit element in the price setting and was seen as an economic lever to discourage the production of non-efficient or out-dated machinery. The "new method" was regarded as a small victory for liberal Soviet economists who advocate that factories should be given the right to fix their own prices and buy their own machinery.

NEW I.M.F. MEMBERS

The Republic of Equatorial Guinea and Cambodia became a member recently of the International Monetary Fund when the Fund's Articles of Agreement were signed in Washington. Equatorial Guinea's quota in the Fund is $ 6 million and that of Cambodia is $ 19 million. Membership in the Fund now totals 115 members and with the admission of Equatorial Guinea and Cambodia the total of members quotas in the IMF is $ 347 million.

WHEAT OUTPUT

Mr A. P. Shinde, union Minister of State for Food and Agriculture, has expressed the hope that this country would attain self-sufficiency in foodgrains within the next few years. Mr Shinde, stated that though the absence of winter rains in the north had caused some initial anxiety it was now estimated that wheat production this year would exceed 18 million tonnes.

COCONUT COMMUNITY MEET

Proposals designed to promote, co-ordinate and harmonise all activities of the coconut industry in Asia were considered at the second session of the Asian Coconut Community, held from January 7 to 9 at Bangkok, headquarters of the Economic Commission for Asia and the Far East (ECAFE). On the basis of the proposals formulated by an expert group which met at ECAFE headquarters in November last, the session decided on the work programme of the community for 1970. The second session of the community was attended by representatives with plenipotentiary authority from the six major coconut-producing countries which have signed the agreement; Ceylon, India, Indonesia, Malaysia, the Philippines and Thailand. Observers were sent by the FAO, UNCTAD, UNDP, ADB and UNIDO.

NAMES IN THE NEWS

Mr M. A. Master, a doyen of Indian shipping and former General Manager of the Scindia Steam Navigation Company, died recently after a prolonged illness. He was 86.

Mr V. G. Rajadhyaksha, Chairman of Hindustan Lever Limited, has been elected President of the Bombay Chamber of Commerce & Industry for the year 1970-71.

Mr A. W. Clausen has been elected President of the Bank of America. He has been with the company for the last 20 years and succeeds the President, Rudolph A. Peterson who retired on January 1, 1970.

Mr Sunderlal Nahata has been unanimously elected as a Director on the Board of the Madras Industrial Investment Corporation Ltd.

The Qantas entry—"HS 125"—in the recent London-Adelaide Air Race completed the distance in 27 hours, 30 minutes and 27 seconds.

COMPANY NOTICES

Company Affairs

ASHOK LEYLAND

Mr A. Ramaswami Mudaliar, Chairman Ashok Leyland Ltd, revealed at the annual general meeting held recently that the sales of the company during the year ended September 30, 1969 recorded an increase of 11 per cent over the previous year at Rs 29 crores. The sales picked up during the later part of the year and this trend, he added, is continuing at the present moment. There has been a greater offtake of vehicles because the position of purchasers of trucks and commercial vehicles has considerably increased. He, therefore, hoped that the year 1969-70 would prove better than the year under review.

Mr Mudaliar pointed out that in view of the adverse conditions in the home market the company has steadily been improving its export and during the year under review export sales amounted to Rs 57·33 lakhs as against a comparatively small figure of Rs. 17·31 lakhs a year before. The company has made substantial head way in Singapore apart from Ceylon. It has got additional orders worth Rs 150 lakhs and the company is confident of increasing its export sales during the current year. In this context, he added, the company consulted Lord Stokes, chairman of British Leyland Motor Corporation who visited this country recently and came to the conclusion that it would be advantageous to the company to produce at least 7,000 Comet chassis every year and at the same time go ahead with the heavy duty expansion programme. He added, that it would be possible to export not only Comets but also heavy duty vehicles in the near future and necessary assistance to cultivate export market has been assured by the foreign collaborators. Moreover additional capital expenditure required to achieve increased production is likely to be available out of internal resources.

DCM

The Delhi Cloth and General Mills Co. Ltd, has decided to capitalise Rs 241·71 lakhs from general reserve and issue bonus shares in the ratio of one for four equity shares held. The paid-up equity capital will be increased from Rs 966·80 lakhs at the end of June 30, 1969 to Rs 1,208·51 lakhs.

BHARAT ELECTRONICS

The directors of Bharat Electronics Ltd have revealed that a sum of Rs 5·70 crores was earned as profit by the company during the year ended March 31, 1969 as against Rs 4·90 crores a year before. A sum of Rs 1·36 crores has been provided for depreciation, Rs 1·90 crores for taxation and Rs 56·18 lakhs for development rebate. The directors have recommended a dividend of 10 per cent and have recommended the transfer of Rs 1·70 crores to general reserve.

The total value of production for the year 1968-69 amounted to Rs 2,073 lakhs, compared to Rs 1,584 lakhs during the previous year. During the year, more than 40 types of major equipments were manufactured, out of which 10 equipments of the value of Rs 130 lakhs were of indigenous design. The production includes indigenously developed electron tubes. The offtake of the transmitting tubes was restricted due to imported reserve stocks held by the users. Owing to the imposition of excise duty on the receiving valves and semi conductors, there has been a setback in the offtake of these components also, obliging the company to curtail its production. The company has been continuing its programme of import substitution for the manufacture of equipments and components under licence arrangements while also introducing indigenously designed equipment. As a result of these efforts, the company was able to effect a net saving in foreign exchange of Rs 1,244 lakhs, out of the total value of completed equipments and components worth Rs 1,954 lakhs. The value of exports during the year was worth Rs 5 lakhs.

GOODYEAR

The construction of Goodyear's new cycle tyre plant and the new automotive tyre plant is fast progressing at Ballabgarh near Delhi. The foundations of the new plants were laid by Mr Fakhruddin Ali Ahmed, Minister of Industrial Development and Company Affairs some time back. A spokesman of the company stated that the new plants are expected to start production from the middle of this year. The annual production capacity of the cycle tyre plant is two million and the new automotive tyre plant will double the present installed capacity.

INCHEK TYRES

The requests of Incheck Tyres Ltd for import of capital goods valued at Rs 2·80 crores has been granted and orders for indigenous equipment have been placed. The construction of building has made considerable progress, stated the chairman of the company recently. With the rise in production and profit, the company had not only been able to clear the arrear dividends on preference shares, but also been able to recommend a maiden dividend of six per cent on ordinary shares. Against the anticipated demand of 3·8 million the current year's production would be 4·05 million while the next year's production would be 4·7 million against an estimated demand of 4·2 million. The chairman urged for sufficient incentives for developing exports as the tyre industry has been finding it difficult to step up exports due to heavy competition abroad and gradual shrinkage of export market. The incentives are necessary because 10 per cent. export is a must as a precondition to expansion capacity. Though the raw materials position during the year has been comfortable, the chairman felt that with the increased production capacity, the tyre industry might feel the shortage of rayon- nylon cord.

INTERNATIONAL TRACTOR

International Tractor Co. of India Ltd has reported that during the first nine months of the current year, (April-December, 1969) sales have been placed around Rs 6·25 crores against Rs 5 crores in the corresponding period of last year. Its pretax profit for the period is estimated at Rs 44 lakhs against Rs 26 lakhs. The chairman of the company disclosed at the extra ordinary general meeting held recently that the company hoped to achieve a turnover of about Rs 9·25 crores for the whole of 1969-70 against Rs 7·20 crores for 1968-69. The company's pretax profit for the current year is estimated at Rs 65 lakhs against Rs 56 lakhs. The company has undertaken the expansion of its capacity from 3,500 tractors to 7,000 tractors per annum. The expansion is estimated to cost Rs 4·10 crores. It will be financed by a rights equity issue of Rs 82 lakhs, preference capital issue of Rs 75 lakhs, debenture issue of Rs 150 lakhs and retained earnings of Rs 103 lakhs. The expansion will be completed in about two and half years. The company has on hand orders for about 10,000 tractors. The rights shares will be issued by the end of March next. The shares will rank for dividend from April 1, 1970.

LAKSHMI MILLS

The Lakshmi Mills Co. Ltd, Coimbatore, proposes to issue shortly 7·75 per cent 1976-79 debentures of Rs 35 lakhs for public subscription. The entire issue has been underwritten. The proceeds of the 35,000 debentures of Rs 100 each will be utilised to finance partly the scheme which the company has undertaken for rehabilitation and modernisation of machinery in the spinning department of all the three units of the mills by 1973 in a phased programme. It is also proposed to add 30 looms in the Coimbatore unit of the company. The money raised by debentures will enable the company to make advances and cash payments against purchase of machinery under deferred payment scheme. The total expenditure on modernisation and rehabilitation is estimated at Rs 1·95 crores (Rs 22 lakhs in 1969-70, Rs 63 lakhs in 1970-71, Rs 59 lakhs in 1971-72 and Rs 51 lakhs in 1972-73). It will be met by debenture issue (Rs. 35 lakhs), internal cash generation (Rs 59 alkhs) and deferred payment loans (Rs 101 lakhs).

CAMPHOR & ALLIED PRODUCTS

The directors of Camphor & Allied Products Ltd, have decided that subject to the sanction of the Controller of Capital Issues, a sum of Rs 10 lakhs be capitalised from the general reserve and 10,000 shares of Rs 100 each fully paid up be issued to the shareholders in the ratio of one bonus share to five existing equity shares. The present position of the company's reserve is as under (as per the Balance Sheet as at 31st December, 1968): general Rs 23 lakhs, development rebate reserve Rs 16·60 lakhs and deferred taxation reserve Rs 20·50 lakhs. Out of the general reserve of Rs 23 lakhs, Rs 10 lakhs will be capitalised, leaving a balance of Rs 13 lakhs besides the other reserves, subject to whatever additions to this that may be made out of the working of the current year. The equity share capital of the company which is at present 50,000 equity shares of Rs 100 each fully paid-up amounting to Rs 50 lakhs, will be now increased by the above capitalisation to 60,000 equity shares of Rs 100 each fully paid up, amounting to Rs 60 lakhs.

PHOSPHATE COMPANY

The profit of the Phosphate Company Ltd has dropped from Rs 10·99 lakhs for 1967-68 to Rs 3·14 lakhs for the year ended June, 1969, after providing Rs 5·99 lakhs for depreciation, Rs 1·04 lakhs for development rebate and Rs 3·60 lakhs for taxation. The taxable ordinary dividend has been reduced from 13 per cent to 10 per cent. The directors also have decided to issue one-for-ten ordinary bonus shares. The company proposes to increase the capacity of granulated mixed fertilizer plant to 72,000 tonnes a year. The capacity of the alum plant is also being expanded.

HERDILLIA CHEMICALS

The turnover of Herdillia Chemicals Ltd, for 1969 has amounted to Rs 5·5 crores against Rs 3 crores for the previous year, according to information given by the company's chairman, Mr H V.R. Iengar, at an extraordinary meeting held recently. The company's performance for 1969, has, however, been a little short of the target of Rs 6 crores fixed at the beginning of the year due to frequent power failures. There was a breakdown recently

in one of its plants, but repairs were being carried out and the plant is expected to resume production shortly.

KIRLOSKAR BROTHERS

The directors of Kirloskar Brothers Ltd, state in their report for the year ended July 31 1969, that the company has decided to set up a sealed compressor plant at Karad in Maharashtra. The plant is expected to go on stream before the end of 1970. The company's existing plant at Kirloskarvadi will also be shifted to Karad. The company will initially take up equity shares of Rs 41 lakhs of a new company, Kirloskar Tractors Ltd which will manufacture tractors at Nasik in Maharashtra. The company's working during 1968-69 has resulted in a higher pre-tax profit of Rs 73·70 lakhs against Rs 64·47 lakhs. Its net sales amounted to Rs 12·64 crores against Rs 9·87 crores. The company's net profit amounts to Rs 31·52 lakhs against Rs 22·71 lakhs after providing Rs 41 lakhs for taxation and Rs 1·35 lakhs for development rebate reserve. The directors have proposed a higher equity dividend of 12 per cent against 9 per cent paid for 1967-68. A sizable portion of the proposed dividend will be exempt from tax in the hands of shareholders.

HINDUSTAN WIRE PRODUCTS

Subject to approval of the Controller of Capital Issues, the board of directors of Hindustan Wire Products Ltd at a meeting held recently decided to capitalise Rs 32·50 lakhs out of general reserve and issue 325,000 ordinary bonus shares of Rs 10 each to the existing shareholders in the proportion of one bonus share for every two held.

ARUNA SUGAR

The Aruna Sugar company has recorded during the year ended September 30, 1969, an increase in the quantity of cane crushed at 269,000 tonnes as against 100,000 tonnes in 1967-68. The output was 22,887 tonnes of sugar, against 10,137 tonnes previously. It is stated that the output would have been higher but for the fact that there was a drop in recovery of sugar to 8·4 per cent from 10·12 per cent. The profit for the year, before depreciation and taxation was at Rs 46·63 lakhs. The amount set aside for depreciation is Rs 19·25 lakhs and taxation Rs 5 lakhs. The transfer to general reserve is Rs 5 lakhs, dividend equalisation reserve Rs 6 lakhs and development rebate reserve Rs 1·50 lakhs, while a sum of Rs 4·3 lakhs was written off as miscellaneous expenses formerly.

BOAC

British Overseas Airways Corporation carried 1,850,000 passengers between January and December 1969, an increase of 21 per cent on the 1968 total. Cargo and air mail increased by 24 per cent to almost 70,000 tons. BOAC's fleet of VC10 and 707 jets flew nearly 90 million miles during the year, an increase of 17 per cent over 1968, and had an overall passenger and cargo load factor of 52·2 per cent, three per cent up. The passenger load factor — the percentage of seats sold on each jet — was two per cent up at 55·6.

SHREE KRISHNA GYANODAY

There was an increase in sales of Shri Krishna Gyanoday Sugar Co. Ltd, to Rs 6·25 crores during the year ended June 30, 1969 against Rs 5·48 crores in the previous year. The directors have, however, proposed to skip dividend for 1969 against 6 per cent last year. The company has incurred a loss of Rs 5·85 crores against a profit of Rs 10·45 lakhs for 11 months ended June 30, 1968. The entire loss has been carried forward. The directors have reported that the company's applications for the expansion of Hathua and Lauriya sugar factories each to 2500 tonnes crushing capacity per day are still pending with the government. The distillery at Lauriya was commissioned in April, 1969 but in spite of adequate supply of m lasses, those at Hathua and Lauriya had to be closed on several occasions due to increased cost of production and poor offtake.

COCHIN OVERSEAS SHIPPING

A new Indian shipping company, the Cochin Overseas Shipping Corporation Ltd, has been incorporated with headquarters at Cochin, and its scheme has been submitted to the union government for approval. The authorised capital of the corporation is Rs 5 crores. The issued capital will be Rs 2 crores made up of 200,000 shares of Rs 100 each of which Rs 1 crore will be subscribed by the promoters themselves, the balance to be raised by public issue. The members on the board of directors of the new company include Mr V. Shankar and Mr P.A. Gopalakrishnan, both retired ICS officers. The new venture is likely to engage in international tramping operations and on which there may be no foreign equity participation. It has made arrangements for the acquisition of four vessels - two general purpose bulk carriers and two medium-sized ships. The company proposes to buy two medium-sized vessels and one bulk carrier on deferred payment basis from Japanese shipyards. The second bulk carrier is likely to be built in Germany.

MALABAR FERTILISERS

The fertiliser project at Mangalore to be undertaken by Malabar Chemicals and Fertilisers Co. Ltd, which is being promoted by the State Government of Mysore, has made some progress. Negotiations with Humphreys and Glasgow, a British firm of engineers and plant suppliers, are going on. The Rs 40-crore project is for manufacturing 600 tonnes per day of ammonia and 1,000 tonnes per day of urea. Besides the Government of Mysore and Humphreys and Glasgow, other participants in the project include Rallis India Ltd. The project will be Naptha-based. For the project, a contract for engineering work has been signed with Humphreys and Glasgow subject to availability of the British credit. Humphreys and Glasgow has recently formed an Indian company, Humphreys and Glasgow Consultants Private Ltd, with 51 per cent equity participation by Indian shareholders. Mr Ambrose Congreve, Chairman of Humphreys and Glasgow, who visited this country recently states that Humphreys and Glasgow would be willing to invest about Rs 2·40 crores in the project by way of equity participation. The company which holds process licence for urea from Stamicarbon and for ammonia from ICI will supply plant and technical know-how to the project. A British Government loan of about Rs 18 crores is also expected.

DENA BANK

Members of Dena Bank Ltd authorised the board of directors in Bombay to apply to the centre for an interim payment of one-half of the amount of the company's paid-up share capital, which will be set off against the total amount of compensation payable to the company under the Banking Companies (Acquisition and Transfer of Undertakings) Act 1969. The Board was also authorised to take steps for the distribution of the compensation money, when it would be received. The resolution for these authorisations was passed at an extra-ordinary meeting in Bombay recently. Mr L. S. Dabholkar, chairman of the bank, assured members that the board would try its best for securing the payment of the compensation as early as possible. In respect of the demand of members to obtain payment of the interim dividend declared by the bank prior to nationalisation, Mr Dabholkar said the board would try also to secure the payment of this dividend from the government. The compensation, in the form of either cash or securities, would be distributed through the banks. The board would try to get the full value of the property as compensation. Mr Dabholkar stated that the director's view was not to continue the undertaking after the settlement of the compensation. He said he could not commit the company whether it would resort to tribunal proceedings in case they were not satisfied with the compensation quantum.

MORTGAGE BANK DEBENTURES

The Bombay State Co-operative Land Mortgage Bank Ltd proposes to issue shortly ordinary debentures for Rs 4·50 crores. The first set will be for Rs 3·25 crores in 10-year 5·75 per cent debentures with an issue price of Rs 99·15 per cent. The second set will be for Rs 1·25 crores in 15-year 6 per cent debentures with an issue price of Rs 99·25 per cent. The debentures are guaranteed by the Government of Maharashtra both in respect of payment of interest and repayment of principal. These have been classed as trustee securities as well as approved securities.

MUKAND IRON

Mukand Iron & Steel Works Ltd has earned a higher profit during the first nine months of the current year than that for the corresponding period of last year. The company's gross sales during the first three quarters of this year have, however, declined comparatively. This has been due to the fact that the turnover during 1968 69 included sizable sales of purchased components for the Korean order. The company's net sales of its own products have been more or less maintained. Exports during the first nine months of this year have totalled Rs 2·40 crores.

COMPANY MEETING

ASHOK LEYLAND LIMITED

Sir A. Ramaswami Mudaliar's Review

Speech delivered by Sir A. Ramaswami Mudaliar, K. C. S. I., D. C. L., (Oxon) Chairman, Ashok Leyland Limited to the Shareholders at the Twentyfirst Annual General Meeting of the Company held on 10th January 1970 at Ennore Madras-57

Gentlemen,

I have great pleasure in extending to you a cordial welcome to the Twentyfirst Annual General Meeting of your Company.

The Director's Report, the Audited Balance Sheet and the Profit and Loss Account for the year ended 30th September 1969 have been circulated to you and with your permission I shall take them as read.

You will have read in the Profit and Loss Account that the sales for the year 1968-69 were a little in excess of Rs. 29 Crores, which is about 11% more than the corresponding figure for 1967-68 when the sales were approximately Rs. 26·15 crores. This is reflected in the results of the year which you will agree have been satisfactory.

During the early part of the year, the conditions experienced in the previous year continued. Only in the later part the sales demand for vehicles picked up and I am glad to say that the same trend is continuing at the present moment. There has been an easier flow of money due to the liberalisation of credit facilities from the Banks and this is already resulting in greater off-take of vehicles, also the action of I.D.B.I. coming in a large way to help the purchasers of trucks and commercial vehicles has gone considerably to improve the position. All these healthy trends clearly indicate that the business in the year 1969-70 will show further improvement. But one cannot be too optimistic these days. There is an acute shortage of production materials in the country especially steel and the prices of indigenous supplies are spiralling up day by day. Added to this, many of the ancillary suppliers have their own share of labour problems, resulting in strikes and lock-outs etc. All these may affect seriously the production in your Factory. The strength of the Automobile industry is built on the strength of its ancillary suppliers and a bolder approach to their problems is needed at the present moment.

It has been a great relief that the Monsoons did not fail this year and already signs are visible for a great boost in agricultural productivity. This will surely clear to a great extent the depression in the industrial horizon and it is hoped that in the equitable distribution of agricultural produce and merchandise in the country that the transport industry will receive a fillip during the coming year. There is no relief in sight by way of reduced taxation on vehicular traffic, but there is an increasing awareness of the problems faced by the Transport Industry. This is already indicated by the recent recommendation of the Central Government to the States that no furthe. increase in road taxation be introduced.

During these adverse conditions in the home market your Company has been steadily increasing its export business. During the year under review the export sales amounted to Rs. 57·33 Lakhs as against the figure of Rs. 17·31 Lakhs in the previous year. Apart from Ceylon, much headway has been made in the Singapore market. You would have recently read in the papers that your Company during the current year has already got a further order worth Rs. 150 Lakhs in the export market and your Directors are quite confident that the sales in the export market will be very considerable during the coming year.

This necessitates increasing the capacity of the factory for the production of the increased number required for the export market. After discussions with the Directors of British Leyland Motor Corporation, your Directors in consultation with that Company's Chairman, Lord Stokes, who visited your Works in December 1969 came to the conclusion that it would be advantageous to the Company to produce at least 7000 Comet chassis per annum and at the same time go ahead with the Heavy Duty Expansion Programme, as already envisaged. Your Directors feel that it should be possible to export from Ashok Leyland not only Comets but also heavy duty vehicles in the near future and you all will be gratified to learn that all assistance and guidance for finding the necessary export market has been assured by our foreign collaborators. Additional capital expenditure that will be required for achieving the increased target is expected to be largely met out of internal resources and your Directors are quite confident that, taking a long range view of things, this expansion is the right thing to do at the present moment.

You will be interested to know that Ennore Foundries Limited, in which your Company has 25% investment, has made good progress since your last Annual General Meeting and during the current year your Company will be receiving a dividend of 8% (subject to deduction of tax on its investment).

I am sure you will hear with great satisfaction that Sir Donald Stokes has been made a life Peer in recognition of his outstanding services to the Motor Industry. We are happy at the honour conferred on Lord Stokes, as he is one of our Directors and has always been the guiding spirit behind the progress of your Company and I am deeply grateful to him for the encouragement we are always receiving from him.

During the year under reveiw, Mr. I. G. Macintosh, one of your Directors, resigned consequent on his return to the United Kingdom. Your Directors wish to place on record his valuable services to the Company. In December 1969, Mr. A.L.L. Collins, who had long connections with your Company, resigned from the Directorship of your Company on the eve of his retirement. I have no doubt that you, as Shareholders, will join me in expressing your great appreciation of his very valuable contribution to the success of your Company during his long association with us, first as the Managing Director and then as its Deputy Chairman, and in wishing him well in his retirement.

In the casual vacancy created by the resignation of Mr. A. L. L. Collins, Mr. J.H. Plane, Deputy Chairman, British Leyland Motor Corporation, has been appointed as a Director and Deputy Chairman of your Company and we extend a hearty welcome to him.

Now it is my pleasant duty to thank our collaborators, Leyland Motors Limited, for all their past assistance and the guidance they will be giving in the future expansion of your Company.

I should like to express our thanks to the Officers of the Central Government for the continued interest they are taking in the development of this Factory. I should like to convey our sincere thanks to the State Government for their help and assistance and the interest they have shown in the progress of your factory.

It gives me great happiness to place on record the valuable services rendered by the Executives, clerical staff and the workers of the Factory for their continued devotion to work, which has resulted in another year of progress.

Last but not least, I have to thank you all, Shareholders, for your continued support and the confidence and trust you have placed in all our ventures.

Note : This does not purport to be a record of the proceedings of the Annual General Meeting.

RECORDS AND STATISTICS

LOKANATHAN COMMITTEE ON INDUSTRIAL POLICY

AT THE meeting of the Small-Scale Industries Board held at Ernakulam on 27th and 28th September, 1968, it was decided to seek a revision of the Industrial Policy Resolution, 1956, so as to further emphasise, expand and clarify the basic strategy set out in the resolution for the development of small-scale industries. In the third meeting of the Official Level Committee of the Small Scale Industries Board held on March 14, 1969, to consider the implementation of the recommendation of the Small-Scale Industries Board, it was agreed that the real deficiency was not in the content of the resolution but in the manner of its implementation. It was, therefore, recommended that a small committee should be set up to prepare a guideline for more effective implementation of the Industrial Policy Resolution In pursuance of this recommendation of the Official Level Committee, an Ad Hoc Committee was set up under the chairmanship of Dr P S Lokanathan, with the following membership : Mr A R Bhat,—member; Mr M. Sivagnanam, Industries Commissioner, Government of Gujarat, Ahmedabad-1—member; Mr. B. C. Mukherjee, Director of Cottage & Small-Scale Industries, Calcutta-1 — member; Mr. D. D. Basu, Director, Office of the DC (SSI), New Delhi-11— Convener. Mr L. N. Saklani, Director of Industries, Delhi Administration, was subsequently co-opted as an additional member of the committee.

The term of reference of the committee was to prepare a guideline for the effective implementation of the Industrial Policy Resolution so far as it related to the small-scale sector.

The committee met under the chairmanship of Dr P.S. Lokanathan on August 29, 1969, at Delhi to consider the question of preparing a guideline for more effective implementation of the Industrial Policy Resolution from the small industries' angle. The recommendations of the committee are as follows :

General Observation

At the very outset it would be appropriate to make a few general observations which are pertinent in connection with the framing of the guideline or instrument of instructions for the effective implementation of the Industrial Policy Resolution, 1956, from the small industries angle. The small industries sector which, from the technological point of view, used to be a relatively backward sector, using traditional methods of production with the aid of simple tools, has since developed to be an integral part of the modern industries sector through the adoption of a system of production using power and modern machines. The stress on the use of improved techniques of production has led to a significant increase in the technical competence of the small-scale sector. In addition to producing conventional goods, they are now manufacturing simple producer goods and a large number of precision instruments and electronic components. In spite of its contribution to the production of sophisticated goods, it has remained fairly labour-intensive, thus contributing to the creation of substantial employment opportunities and improvement in the living standards of the people. Small-scale industries have also facilitated mobilisation of local resources of capital and skill, more equitable distribution of the national income and a better spatial distribution of industrial activity to reduce regional disparities. In addition, they have helped to lay the basis of a socialist pattern of society, which has been accepted as the country's goal. The committee, however, agree that the industrial growth of the country should not be viewed in compartments. It is essentially a matter of promoting rapid development of industries and the sectoral development of either the large-scale or small-scale industries is only a method. But, the main objective has to be healthy and balanced development of small-scale and large-scale industries and this could be achieved by securing a close and effective co-ordination over the development of both the small-scale and large-scale sectors.

In respect of a large majority of consumer goods there is hardly anything to choose between the large-scale units and small-scale units from the point of view of technology. The modern small-scale units manufacturing a large variety of consumer goods can claim parity with their large-scale counterparts in the matter of technology and productivity. It would, therefore, be in the true spirit of the Industrial Policy Resolution to reserve for the small-scale sector most of the consumer goods which are being competently and economically manufactured on a small-scale. The general policy should be to progressively restrict the production of specific consumer goods to small-scale sector as soon as the competency of the small-scale sector to produce the items substantially is established.

Delicensing Policy

In view of the fast increasing competence of the small-scale sector to manufacture a large number of producer goods and precision instruments, the reserved list should be reviewed annually with a view to including as many of the items as are being produced competently and substantially in the small-scale sector. Also, the delicensing of the items which are being manufactured adequately or substantially in the small-scale sector at present should be cancelled.

In future delicensing of industries should not be undertaken without carefully examining its impact on the small-scale industries. All items or products, including consumer goods and producer goods, which are technically and economically feasible to be produced in the small-scale sector should be excluded from the delicensing programme so that the capacity in the large-scale sector does not develop to the detriment of the small-scale sector. This would broaden the base of operation for small-scale units and help canalise the flow of new investments in large-scale undertakings to areas or fields requiring the use of sophisticated technology or relatively high level of mechanisation and automation.

It has been observed that even in the reserved areas large-scale undertakings have expanded their licensed capacity in an unauthorised manner thereby creating difficulties for the small-scale industries to expand. It is, therefore, necessary to take firm steps against all unauthorised expansion of capacity by large-scale units in the reserved fields.

The tendency towards industrial verticalisation has proved to be a great handicap or drawback in the development of ancillary industries, particularly in the small-scale sector. Industrial licences granted to large-scale undertakings generally include manufacture of parts, components, sub-assemblies, etc. which are being competently manufactured in the small-scale sector. It is therefore, necessary to ensure that wherever sub-contracting and ancillary production is feasible, the industrial licences to the large-scale units should be granted only after excluding facilities for the manufacture of such components, parts, sub-assemblies, etc. as can be competently produced by the small-scale units. The licensing procedure must ensure that possibilities of the small-scale sector are fully taken into account by the Director General of Technical Development himself on the advice of the Organisation of the Development Commissioner (Small-Scale Industries). All large-scale units applying for industrial licences under the Industries (Development & Regulation) Act, should be required to indicate clearly in their applications the parts, components and accessories, etc. to be produced by them and to be subcontracted to small-scale ancillary units and the total requirements of such items in a year. Raw materials should be given to large-scale units only for the items to be produced by them. It is also desirable to ensure that genuine and independent small-scale ancillary units are encouraged to the maximum possible extent.

Raw Material Allocation

In view of the importance of the small-scale sector in the national economy, it is necessary to ensure allocation of adequate resources for the sustained development of this sector. In the matter of distribution of foreign exchange and scarce indigenous raw materials, there has been a tendency to meet the requirements of the large-scale industries almost in full while allocating resources on a limited scale to meet only fractional requirements of the small-scale sector. It is absolutely necessary to treat the small-scale sector as a priority sector of the economy and allocate resources of free foreign exchange and scarce indigenous raw materials in proportion to the contribution of this sector to the total industrial production and employment in the country. In view of the emphasis on reservation of a large number of items or products, particularly belonging to the consumer goods industry, for the small-scale sector, it has to be ensured that the small enterprises concerned will have the same facilities as large-scale units to procure the basic raw materials required for fulfilling their targets of production. It is also necessary to see that the allocation of resources between large-scale and small-scale sectors is done on an equitable basis, with full regard to the increasing importance of the small-scale sector to the industrial economy of the country. The views of the Organisation of the Development Commissioner should invariably be taken into consideration as regards the requirements of the small-scale sector to ensure that there is no deficiency in the allocation of scarce resources for the proper utilisation of the capacity of the small-scale industries and their continued development.

Large-scale processors of technical raw materials and intermediates such as basic plastic materials, aluminium sheets and circles, wires, steel sections, etc. should not be allowed to produce the end-products which are technically and economically feasible for being manufactured in the small-scale sector. An adequate proportion of their production of technical materials and intermediates should be earmarked for the use of the small-scale sector and these should be made available to the small industrialist concerned through approved, reliable and controllable distribution channels.

An analysis of the bank credit available to industries has revealed that large-scale industries received bulk of the bank credit, whereas small-scale industries could attract only a small fraction of this amount. Although the re-

lative contributions of these two sectors to the national income were not very different in percentage terms, the amount of bank credit available to small-scale industries was even less than one-tenth of the total bank credit to industries. It is hoped that in view of the nationalisation of the major scheduled banks, adequate 'term-loans' and adequate working capital will be provided to the small-scale sector. It is also necessary to take steps so that the capital base of the small-scale sector is progressively strengthened.

The division of responsibility for the development of several industries among a number of ministries, such as Ministries of Industrial Development, Internal Trade and Company Affairs, Defence, Food and Agriculture, Petro-Chemicals, Foreign Trade, and Supply, has created a gap in the matter of co-ordination among these ministries for the development of the small-scale sectors of these industries. Although under the Rules of Business approved by the cabinet the Development Commissioner (SSI) is responsible for the co-ordination of all policies and programmes for the development of small-scale industries in the country, it has not been possible for him, in the absence of statutory provisions, to ensure healthy and co-ordinated development of the small-scale and large-scale sectors of these industries. It is, therefore, necessary to reaffirm with the approval of the cabinet that ministries concerned with the development of specific industries should, while framing the policies and programmes of development of these industries, fully take into consideration the suggestions of the Development Commissioner (SSI) in view of his responsibility for the balanced and co-ordinated development of the large scale and small-scale sectors of industries in general.

Sectoral Co-ordination

There is an imperative need for close and effective co-ordination between the Development Commissioner (Small-Scale Industries and the Director General of Technical Development) in order to promote a healthy and co-ordinated development of industries in both small-scale and large-scale sectors. It is extremely desirable to take a unified view of the work in both the organisations and regulate the distribution of total number of experts in the two organisations in such a way that the regulatory work in respect of large-scale industries and developmental and promotional work in respect of small-scale industries can be undertaken with efficiency and speed. The Organisation of the Development Commissioner (SSI) should be strengthened with due regard to the complexity of the work of development of small-scale industries and the extensive nature of the responsibilities involved. There should be parity between the organisation of the DGTD and of the DC (SSI) in the matter of status, powers and availability of experts of different types and grades, thus eliminating a serious administrative handicap which is coming in the way of the Development Commissioner performing his duties efficiently in respect of small-scale industries. It is also necessary to strengthen the state directorates of industries adequately to enable them to discharge their responsibilities properly in the matter of development of small-scale industries.

Although it was intended in the Industrial Policy Resolution that the growth of small-scale industries should be helped by the levy of differential taxation, the levy of excise duties has not generally been designed to give a fillip to the development of small-scale industries. The structure of excise duty has been mostly related either to the size or type of the product, and very rarely to the scale of operation or size of the unit. It has, therefore, to be ensured that while levying excise duty on any product, the rate structure should be such as to afford preferential treatment to the small-scale producers. The levy of differential rates of excise should be designed to give a fillip to the mechanised small-scale units and the types of concessions granted to village and cottage industries at present should be extended to modern small-scale industries as well in terms of the Industrial Policy Resolution. Special assistance should also be provided to the small-scale sector to enable them to utilise the export potential which is developing.

In view of the rapid development of the small-scale sector and its growing importance to the economy of the country, it is necessary to collect key statistics about investment, employment, consumption of raw materials and production of goods, etc. on a regular and continuing basis. There is need for adopting a system of compulsory registration of all small-scale units employing five workers or more for statistical purposes. It is, therefore, necessary to introduce a suitable amendment to the existing legislation to ensure collection of key statistics in respect of small-scale industries from every state on a year to year basis.

Regd. No. D-314
Registered with the Registrar
of Newspapers for India
under No. R. N. 535/57

Printed and Published by R. P. Agarwala, on behalf of the Eastern Economist Ltd., United Commercial Bank Building, Parliament Street, New Delhi, at the New India Press, Connaught Circus, New Delhi.
Editor : V. Balasubramanian
Registered at the G.P.O., London, as a newspaper

EASTERN ECONOMIST

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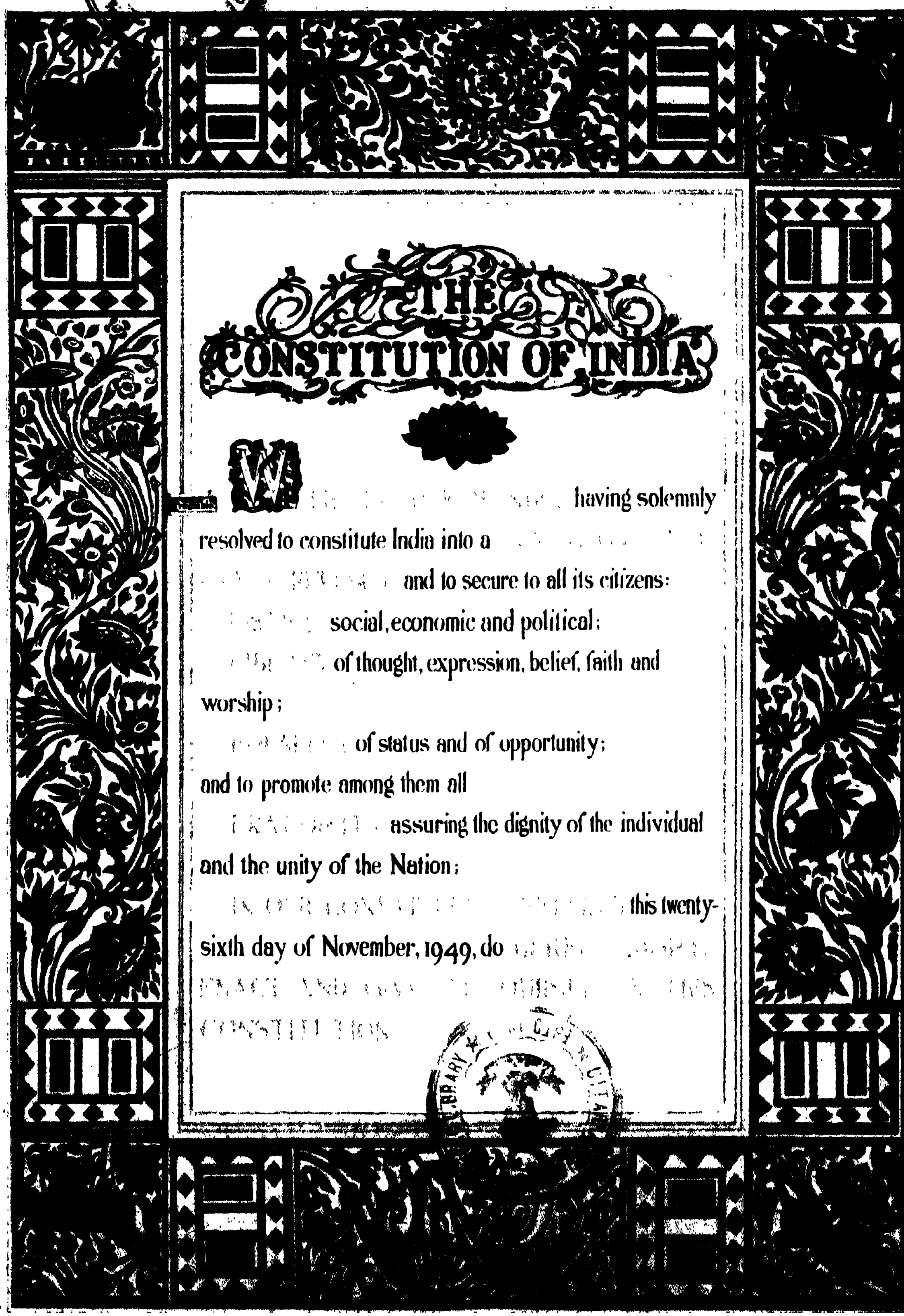


THE CONSTITUTION OF INDIA

W[illegible] having solemnly resolved to constitute India into a [illegible] and to secure to all its citizens:

[illegible] social, economic and political;

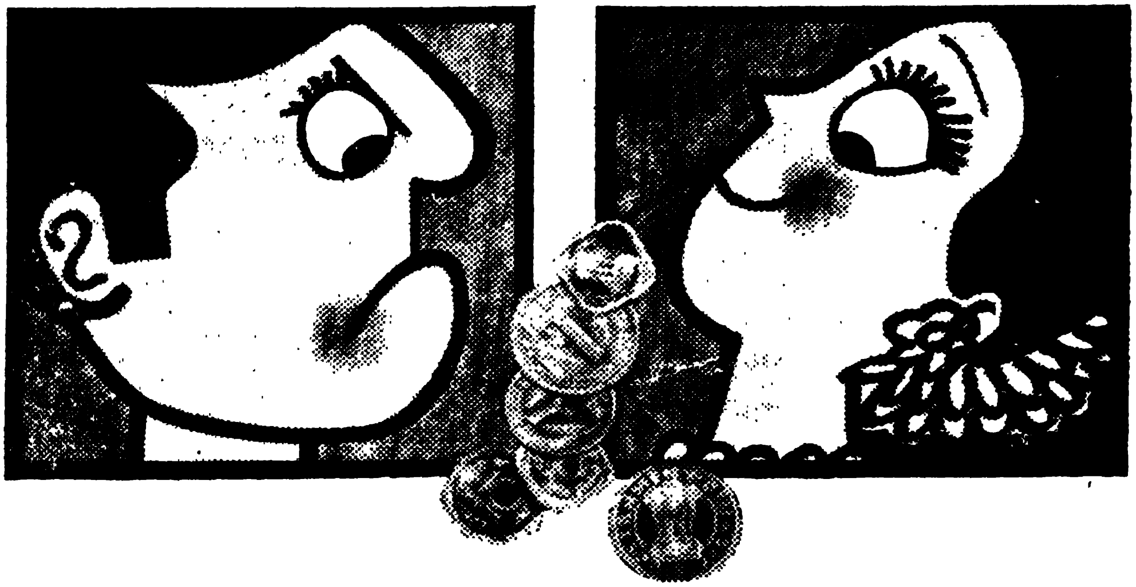
[illegible] of thought, expression, belief, faith and worship;

[illegible] of status and of opportunity;

and to promote among them all

[illegible] assuring the dignity of the individual and the unity of the Nation;

[illegible] this twenty-sixth day of November, 1949, do [illegible]



EASTERN ECONOMIST

JANUARY 23, 1970

ANNUAL SUBSCRIPTION
INLAND : Rs 85.00
FOREIGN : £7-0-0 or $17-00
Airmail & Advertisement Rates on Enquiry
REGISTERED OFFICE
UCO Bank Building, P. Box 34, Parliament Street, New Delhi-1.

Hands Off the Nation's Conscience

ON THIS 26th of January, again, there will be the usual parade of pomp and pageantry down Rajpath. Thousands of people, either resident in the Capital or visiting it for the event, will enjoy watching this and have good holiday fun. But India is larger than New Delhi and the Indian people are far more numerous than such of the men and women who may have an opportunity of being entertained along the route of the parade from Vijay Chowk to Red Fort. The question is : What do the 530 million people of India's towns and villages stand to gain from this national occasion?

This is a question which can be raised on this 26th of January without any flourish of rhetoric or the fanfare of melodrama. If Republic Day means anything at all it must mean an annual reaffirmation by those who are privileged to govern this country in the name of its Constitution to honour, obey and translate into the practice of every-day government the principles and precepts to which the members of the Constituent Assembly committed themselves in the name of the nation on the 26th day of November, 1949. To suggest this is not to assert that a political document, however historic, must for ever remain sovereign over a people living and governing themselves in freedom or reign and rule in over-riding authority even where the changing needs or the evolving aspirations of the citizens are concerned. But it does mean that a Constitution which a people, of their own free will, have given unto themselves through the sovereign instrument of a constituent assembly, should not be tampered with in its vital parts, except under conditions of the clearest justification in terms of a true consensus of enlightened public opinion.

In our view, it has become supremely important on this particular 26th of January to spell out in firm and precise phrases the ethical claims and political compulsions implicit in this concept of what the politicians owe to the Constitution or the Constitution to the people. This is only partly because of the sway of factionalism over the political affairs of the nation these days and the consequent attempts of adventurist or opportunist politicians to bend specific provisions of the Constitution to the service of their subjective political ends. An even more insidious threat to the constitutional legitimacy in which we, as a people, desire to see our political system function has arisen not so much in the form of moves towards amending this article of the Constitution or that as in the form of an organised effort by the politicians in power to create a mental climate in which the institutions of a free society, such as an independent judiciary, an autonomous press or a professional civil service, can be coaxed or coerced, gently or otherwise, into taking their guidelines from the propaganda literature of parties in power.

There is today an obscene preaching of the gospel of what is tendentiously described as "social commitment". It began with the editors of the nation's press being told of their obligation to be "socially committed" to the satisfaction of the political faction now in power in the central government. Then came a spate of public complaints from ruling politicians, including the Prime Minister herself, that the civil service was lacking in "social commitment". Finally, the outrageous cry has been raised by practically every leading member of the ruling Congress party that it must be demanded of the judiciary too that it must become "socially committed". The net effect of all this is that the Constitution is sought to be subverted in the spirit of its provisions to an even more objectionable extent than it is sought to be tampered with in the letter of its clauses.

This is why this 26th day of January has come to be o fspecial significance to all those men and women of India who have no political axe to grind, whether in a personal sense or a group sense and whose only political stake or interest is the right they have to ensure the legitimate and orderly evolution of the potential and promises of their democratic Constitution. On this day, as on earlier anniversaries of Republic Day, the politicians may take their pledges with their tongues in their cheeks. But the national community of people who are not as these politicians are, but are the true masters of these politicians

cannot thus afford to make a convenience of their conscience. Even as the National Flag sways and the National Anthem swells on this 26th of January, the people of India should take a pledge of a different quality and boldy resolve that even if the politicians may choose to play with what they call their conscience, they will not be allowed to make a convenience of the nation's conscience which is its Consitution.

A Date with Tarapur

THE *Times of India*, reporting "the formal dedication" of the country's first atomic power station at Tarapur by the Prime Minister on January 19, chose to proclaim that "Mrs Gandhi ushers in nuclear power age". This was clear hyperbolic since the atom had been split and processed earlier by other persons in other places. *The Indian Express* was more reasonable when it merely stated in its relevant headline, "Nuclear power age ushered in India", although it did trip on the grammar. It would be more to the point perhaps to recall on this occasion the name of the late Homi J. Bhabha and his vision of the development of atomic energy in our country for peaceful purposes.

Back in August 1958, the decision was taken by the Government of India to include an atomic power station in the third five-year Plan. It was also decided that this plant would be so located as to remove the chronic power shortage of the western region which had neither coal mines for establishing thermal power stations nor enough water resources to warrant the setting up of more hydel power plants. The selection of Tarapur (a small village some 65 miles north of Bombay) followed the scrutiny of a list of no less than 20 locations in this region. Its nearness to sea was a major factor in its favour as the plant needs about 2,000 million litres of water every day for its cooling system. The atomic reactor at Tarapur will be fuelled by "enriched uranium" which contains a greater proportion of the fissionable uranium-235 isotope than is found in natural form.

But for the generous assistance received from the USA, it would not have been possible for this country to complete this gigantic project. It was in December 1963 that our country and the USA concluded an agreement according to which we received a loan of \$ 75 million (Rs 56.25 crores) for this project. Two companies—the General Electric Co. of the USA and the International General Electric Co. (India), collectively called IGE—were the prime contractors for the project. The plant was designed by IGE in its power equipment department in San Jose, California (USA). While at the time of concluding the agreement with IGE it was believed that all the equipment would have to be imported, a saving of \$ 5 million (Rs 3.75 crores) was made through some parts of the equipment being fabricated in this country.

The states of Maharashtra and Gujarat will be the major beneficiaries of this project which will provide them with 380,000 KW of power. The electrical grid system of the two states has been integrated through the Tarapur station and the combined grid has the capacity of 2.3 million KW. Since the demand for power in this region is running ahead of supply, the establishment of the Tarapur plant will fill a major gap in the infrastructure of the area and accelerate the pace of industrialization. For the past few years, industrial production in the two states was interrupted whenever the monsoon failed. Frequent cuts in consumption of electricity had become a source of substantial financial losses to the mills. As nuclear power is independent of the rains, this industrial belt will, after the commissioning of Tarapur plant, heave a sigh of relief.

The life of the Tarapur station has been put at 25 years. In the initial stages, 40 tonnes of enriched uranium —imported from the USA—was fed into each of the two reactors which will suffice for about two years. On the expiry of this period, the annual requirement of enriched uranium will be 20 tonnes only which will be imported from the USA. An interesting aspect of the Tarapur plant is the expected economy in the use of fuels. For the same load of power as at Tarapur, the superior grade coal needed would be about one million tonne a year.

Great precautions have been taken to minimise radioactivity in the areas surrounding the Tarapur plant. The walls of the plant have been made of thick reinforcement concrete. The reactors have been enclosed separately in shells of steel. Each reactor has its own pool of water for reducing nuclear pressure. Even then, a constant watch will be kept on radioactivity in the surrounding areas.

The atomic age in this country has been heralded by the Tarapur plant, which incidentally is the largest atomic plant in Asia. It will be followed by two other plants—one at Ranapratapsagar in Rajasthan and the other at Kalpakkam in Madras. Both these plants will be Candu-type and will operate on ordinary uranium. The total electricity produced by all the three will be equal to 980,000 KW a year. By the end of the fourth Plan the plants at Ranapratapsagar and Kalpakkam are likely to be completed.

According to Dr Vikram A. Sarabhai, Chairman of the Atomic Energy Commission, the larger the atomic plant, the lower would be the cost of power generation. He has estimated that the cost per KWH at the Tarapur and Ranapratapsagar plants would be nearly thirty per cent less than in the case of the thermal plants. The nation would of course watch with keen interest to what extent this expectation is realised.

Welcome, Dr Abs

IT IS in the fitness of things that the high powered 12-man West German delegation, headed by Dr Hermann J. Abs, Chairman of Deutsche Bank A.G., should have begun its programme of consultation in this country with a meeting with the chairman (Mr G. L. Mehta) and members of the governing body of the Indian Investment Centre (IIC) and directors of the Industrial Credit and Investment Corporation of India Ltd (ICICI), in Bombay. Although the genesis, of the visit of this delegation goes back to May, 1968, when Mr Fakhruddin Ali Ahmed, union Minister for Industrial Development, Internal Trade and Company Affairs, then on a visit to the Federal Republic of Germany, made the suggestion that a delegation of German industrialists and bankers might be invited to visit India the actual invitation to Dr Abs and the other members of the delegation was extended by Mr G. L. Mehta, while the Indian Ambassador at Bonn, Mr Khub Chand, followed it up.

Mr Fakhruddin's suggestion stemmed from the strong balance of trade and payments position of West Germany, on the one hand, and the German government's encouragement for German investment abroad, on the other, and it is noteworthy that these two features of the West German economy are being referred to at practically every meeting that the delegation has been

having with businessmen or government officials. Be that as it may, the main objectives of the delegation's present visit, as outlined by the IIC, are :—

To enable the delegation to get a first hand dea of India's economic progress, industrial achievements and scope for further investment ;

to obtain a clear understanding of the policies and procedures concerning foreign investment and collaboration ;

to explore jointly the possibilities of increased German investment and the steps to be taken to facilitate it; and

to examine more closely specific fields and projects for investment.

In addition to this, it is stated, the delegation would also have an opportunity to explore the scope for greater co-operation between the two countries in furthering exports from India and in setting up Indo-German joint enterprises in third countries.

What is the present position in regard to (i) Indo-West German trade, (ii) Indo-German collaboration and (iii) German investment in our country? From the detailed references made by speakers at the several meetings that the delegation had in Bombay, the picture that emerges is given in the table below :

TREND OF TRADE

(Rs crores)

Year	Imports from West Germany	Exports to West Germany	Trade Deficit
1963-64	90.46	20.15	—70.31
1964-65	108.69	17.70	—90.99
1965-66	136.92	18.18	—118.74
1966-67	162.86	25.88	—136.98
1967-68	143.93	21.69	—122.24
1968-69	119.74	26.14	—93.60

It is thus seen that we have been having a continuous and persistent deficit in our trade with West Germany.

More than 300 West German firms are having joint ventures in different industries in this country. Two leading German banks hold shares of the ICICI. The Federal Republic of Germany accounts for 23 per cent of 290 foreign collaborations with 406 collaborators. Total collaborations between Indian and German firms approved by the Government of India number 493. Between 1961 and 1969 (up to September), IIC assisted 28 Indo-German collaborations with a total capital outlay of Rs 77 million. According to Mr Mehta, India has also utilised nearly one-third of the foreign exchange resources made available to the ICICI by the World Bank for the purchase of machinery and equipment from the Federal Republic. ICICI has received the co-operation and assistance of *Kredit an stalt fur wiederaufbau* which has so far extended eight lines of credit aggregating DM 82.5 million.

With regard to foreign assistance to India from consortium countries, the Federal Republic of Germany stands next only to the USA. The total West German aid as at the end of June, 1969, was Rs 856.7 crores, of which loans amounted to Rs 842.9 crores and grants to Rs 13.8 crores. All this no doubt works out to more than nine per cent of the total economic assistance received by us. But, if we take the long-term foreign business investment in India from all countries into account, we find that West Germany's share works out to only five per cent, as compared to the UK's share of 47.7 per cent and the USA's share of 25 per cent. In relation to overall West German investments abroad (it was Rs 31 billion in March, 1967), however, the Federal Republic's investment in this country was only about one per cent.

It is against this background that whatever may transpire between the Abs delegation, on the one side, and the businessmen and the Government of India officials, on the other, assumes importance. In this connection, Mr Mehta may be said to have set both the tone and the pace of these discussions. His reference to the current thinking in this country on the government's economic programme and policies, the economic situation today, the need for private foreign investment and technical know-how and the government's policy and procedures on private foreign investment was soberly objective, though how far the members of the delegation individually or as a body accepted this assessment is difficult to fathom. But it is significant that the delegation members raised questions on the government's policy regarding private foreign investment, particularly as to foreign majority participation, control of management, appointment of foreign technicians, patent laws, royalty payments, technical agreements and transfer of technology through sub-licensing and so on, thereby indicating that they mean real business. Bombay businesmen, evidently taking their cue from Mr Mehta's observations, endeavoured to reassure the delegation on a number of these topics. While Mr J.H. Doshi, President of the Indian Merchants' Chamber, told them that India had already become well-known to the West German industrialists, that we with our massive and growing market offered vast scope for German investments and that the policy of our government towards foreign collaborations and investments was becoming quite helpful, Mr Pranlal Patel, the AIMO president, referred in very appreciative terms to the different fields of German co-operation and instanced the remarkable achievement of the ancillary manufacturing industry following the pattern of development recommended by Dip. Ing. Vorwig, Secretary-General of the German Automobile Manufacturers' Association, when he visited this country as adviser on this important industry, and the growing interest being evinced here in Dr Vollrath's scheme of export promotion.

From what these two said in the course of their discussions with the delegation, it would appear that there is particularly good scope for more financial participation by German firms (out of about 30 firms who account for the bulk of the West German investments abroad, nearly 20 have been functioning in this country, but only 10 of them account for any substantial investment) together with technical collaborations, that a sizable portion of medium-scale industries in Germany (these are, of course, quite large by Indian standards) have not yet entered the investment market abroad, that there is considerable scope for joint ventures and for West German industrialists interesting themselves in export-oriented industries in our country, and, last, but not least, that India would be a most suitable base for exports to countries in east and west Asia, as also in Africa.

On the basis of the fourth Plan programme itself, Mr Patel indicated that there were tremendous investment opportunities not only in the existing sectors of manufacture but also in new product developments, in the areas of petrochemical complex, fertilisers, pharmaceuticals, intermediate chemicals, light engineering goods and electronic equipment, not to speak of several capital goods.

How much of all these has registered in the minds of the German delegation is anybody's guess. In all likelihood, the members of the delegation will hear more of such observations when they visit different places and talk to people there. But what will register most, it seems to us, is what they will see with their own eyes of how the several industries in which we have German participation or collaboration today

have been faring and what they will hear with their own ears from our ministers and high government officials as to the precise policy they propose to follow and the particular philosophy they claim to profess.

Meanwhile, it is perhaps worthwhile for everybody, both our businessmen and our rulers, to take note of some home truths which Dr Abs voiced whilst in Bombay. First, he said "we too are a developing country and so have something in common with India." Secondly, he suggested that it would be worthwhile studying the reasons why West German interest in South America has been more than in this part of the world. Partly as one of the reasons, and partly in answer to why West German investment in this country compared unfavourably with those of the UK and the USA, the leader of the delegation said that Germans do not speak the same language as Indians, English (unlike the Britisher and the Americans) and that the German investor is not willing to run any risks. Thirdly, Dr Abs made the point that the private sector is essential for the successful conduct of business and, in this context, he pointed out how, even after the *Volkswagen* was nationalised in Germany, it continued to follow the philosophy of private enterprise. "It is only possible to get the best talents", he added, "when you have a private sector or a mixed economy". He further pointed out that it would be useful to produce only such articles for which there is a demand both at home and abroad.

These apart, we in this country should be grateful to Dr Abs for some of the nice things he had to say and the fine sentiment he expressed for the future of all developing countries generally. "I cannot think of better partners than this group", he said, referring to our businessmen with whom the West Germans have collaboration already. "I am looking to a future -- may be soon, may be at the turn of the century - when we shall have better co-operation and better participation of labour which makes possible not only industrial development, but also the welfare of the people." That is a fine sentiment all right, but how far are our West German friends prepared to go to make this possible?

Crowning Clowning

THE DMK under Mr Karunanidhi, the Chief Minister of Tamil Nadu, may be adding to the gaiety of the nation at a time when the people could certainly do with some free public entertainment, but he is certainly not doing good to himself or his party. Some days ago he got himself crowned at a public ceremony with a crown of gold weighing 45 sovereigns. The occasion was his 45th birthday and the place, significantly enough, was Nagarcoil, in the constituency which had returned Mr Kamaraj to the Lok Sabha in a memorable by-election. The bullion value of this bauble, at the current market price of the sovereign, should be about Rs 7,000, but Mr Karunanidhi has announced that he would auction this birthday gift and donate the proceeds to the party's election chest.

Even assuming that some well-heeled DMK loyalist or enthusiast is to be expected to bid for Mr Karunanidhi's gold crown at many times its intrinsic value, it is unlikely that the DMK would gain by more than, say, Rs one lakh at the outside. Large as this amount certainly is for a country, 95 per cent of the people of which are so poor that they must look up to Mrs Indira Gandhi to redeem them, it is still not an unusually big bonanza for a party's election or other funds as Mr Fakhruddin Ali Ahmed and other champion fund-raisers in the capital should be able to testify. It is also a fact that there are much more unwholesome ways of raising funds for the party than the method adopted by Mr Karunanidhi on this occasion.

If, nevertheless, we are still determined to fault the Chief Minister of Tamil Nadu on his conduct, it is not on the grounds of political propriety, as political propriety is now being practised in our country, but on the ground simply of bad taste. We would readily grant that Mr Karunanidhi is a man of more than average intelligence and accomplishments and that he is, undoubtedly, to be counted among the abler chief ministers now to be found in the country. All the same, it is an act of sheer vulgarity on his part to have arranged to be crowned publicly with a crown of gold in this year of grace 1970.

Mr Karunanidhi, we are aware, has been closely associated with the stage and the screen in all kinds of capacities and it is possible that, for a man who has had so much to do with tinsel, the genuine glitter of gold may be a temptation hard to resist, indeed. Even so, the Chief Minister of Tamil Nadu and other publicists of the DMK have always claimed to be the true inheritors of the ancient culture of the Land of the Tamils, and it is, therefore, altogether unacceptable that they should lend themselves to such cheap displays of self-glorification. Some people are disposed to credit the strategists and propagandists of the DMK with an uncanny grasp of mass psychology. If this evaluation is true, the particular mass of the Tamil people, to whom Mr Karunanidhi's flamboyant attempt to buy for himself from the bazars of Nagarcoil a bit of the divinity "that doth hedge a king" is supposed to appeal or may appeal, can only fall back on a dead past for support to their cultural pretentions.

The Nagarcoil episode perhaps is not just silly, but is sinister. Those who have been closely watching the performances of the DMK leadership since this party came to power in Tamil Nadu are finding it increasingly hard to resist the suspicion that an insidious cult of personality is being sedulously and systematically built up. Starting off with the advantage of the high reputation which the late Annadurai enjoyed beyond the frontiers of his immediate political following as a humanist who had strayed into politics, the image-makers of the DMK have been busily constructing a whole political pantheon of neo-Dravidian demi-gods.

The process began, more or less innocently, with the erection, during his life-time, of a statue of Annadurai, sculptured to heroic dimensions, at a prominent traffic island on the main thoroughfare in the city of Madras. It reached a point of extravagance when a stretch of land on the Marina was appropriated by the DMK ministry for a mausoleum for the founder-leader of the party. Its most recent manifestation was the re-naming of Mount Road as "Annadurai Salai". Over this period, public buildings and public places in the state have been literally littered with statues, portraits or pictures of the departed great man.

However, there is no denying that much of this official adoration of the late Annadurai could be justified in terms of the admiration and affection which many millions of people in Tamil Nadu did have for him when he was in their midst or continue to have for his memory now that he is gone. But what ought to bother these and the rest of the people of Tamil Nadu or the country itself is that all this adulation of the late Annadurai by some of his colleagues in the party is turning out to be a carefully planned prelude to the perpetuation of a cult of personality for furthering the political interests of the DMK.

At the rate at which public places and buildings are now being named after Mr Karunanidhi or statues put

up or pictures hung to his greater glory, there will soon be a dozen such declarations of tribute to the present Chief Minister of Tamil Nadu to every single one honouring the late Annadurai. In fairness to the DMK, it must be admitted that a bad example has been set by the Congress party in the matter of devaluing the institution of public tributes to the service or memory of great men or women. To the DMK, however, must belong the distinction of pushing this process of devaluation to its *reductio ad absurdum*. The crown that Mr Karunanidhi chose to wear at Nagarcoil may have been of gold sovereigns, but it is for all that a plain piece of political clowning. Its only value is that it may further endear him to the even more unprincipled buffoons of the ruling Congress party in New Delhi.

This Maharaja Pays His Way

WHILE, TO the public generally, it is gratifying to know that more and more public sector undertakings are getting out of the red, to the student of corporation finances, what is of even greater significance is that this trend should not only be sustained but steadily improved upon. The few profit-making public sector undertakings have so far conformed to this pattern, more or less, but how much longer this would last is anybody's guess, to judge from the latest results of working of Air-India. Releasing these results to the press, the other day, Mr J. R. D. Tata, the Air-India chairman, disclosed that, while Air-India maintained its unbroken record of profitability in 1968-69 also, both the operating profit (Rs 4.82 crores) and the net profit after interest and before payment of tax (Rs 2.94 crores) were slightly lower than in 1967-68.

Mr Tata no doubt envisaged that the corporation looked forward to a further period of expansion and profitable operation during the seventies, but he also underscored the point that "the task would be an onerous one." This is because of the certain prospect of a continuous rise in costs, not to speak of the heavy burden of debt in this particular case so necessary to finance new fleets of costly large capacity jets to compete with established giant international airlines. According to Mr Tata. "Costs give every indication of continuing to rise, particularly in regard to wages, which, in the airlines business, form a high percentage of total costs." In 1968-69, employees' wages and benefits constituted 27.8 per cent of Air-India's total income.

We may dwell on the main features of working of Air-India and draw attention to the highlights of the latest annual report. To dispose of first the operating profit and net profit, to which reference has been made earlier. In 1968-69, the operating profit was lower by 11.3 per cent at Rs 4.82 crores, compared to Rs 5.43 crores, which was a record. This was because, although operating revenue increased by 8.2 per cent from Rs 55.01 crores in 1967-68 to Rs 59.50 crores, operating expenses rose by a still higher percentage (10.3 per cent) from Rs 49.58 crores to Rs 54.68 crores. In the result, the latest net surplus figure before tax was Rs 55 lakhs lower than the 1967-68 figure (Rs 2.94 crores compared to Rs 3.49 crores). It is comforting, therefore, to find that Air-India could absorb all the higher expenses and yet show a sizable profit.

This was, of course, made possible by the all-round progress in Air-India's performance during 1968-69. Thus, the corporation provided more capacity than during 1967-68—from 434.452 million ATKms to 461.990 million ATKms or a rise of 6.3 per cent. But capacity actually utilised rose more spectacularly by 13.2 per cent from 198·997 million ATKms to 225.278 million ATKms. Consequently, there was a distinct improvement in the overall load factor—from 48.0 per cent in 1967-68 to 48.8 per cent, a rise of 1.7 per cent.

To put it differently, the total number of passengers flown, the total cargo tonne-kilometres and the total mail tonne-kilometres all registered rises. Thus, the total number of passengers flown increased by 16 per cent from 285,500 in 1967-68 to 331,000 last year; cargo tonne-kilometres rose from 60.24 million to 68.99 million or by 14.5 per cent, while mail tonne kilometres were higher by 10.8 per cent to 11.20 million. This was reflected in not only higher revenue but also in further improved aircraft utilisation. Indeed, at 10.4 hours per day, Air-India's record in this respect is said to be amongst the highest in the world. Revenue-wise, Air-India flew a total of 34,535 revenue hours in 1968-69, compared to 32,193 revenue hours in the preceding year. Cargo revenue and mail revenue also showed noticeable improvement (plus 15.5 per cent and 8.3 per cent, respectively).

As Air-India completed the last year of the decade of the sixties, it may be interesting at this stage briefly to refer to the ten-year record of the corporation. During this period, Air-India earned operating profits aggregating Rs 29.02 crores, while total net profit amounted to Rs 21.73 crores. From the point of view of earning or saving of foreign exchange, it is noteworthy, Air-India's contribution over the decade was of the order of Rs 60 crores. The total capital investment (equity and loan) of the Government of India today at Rs 26.82 crores has stayed put for the last seven years (it was Rs 16.55 crores to start with, in 1959-60; in 1960-61, it rose to Rs 18.26 crores and, further, to Rs 25.20 crores next year. A further small addition—Rs 1.62 crores—followed in 1962-63 to bring it to this figure. But it must be said to the credit of Air-India that it has ploughed back from its own internal resources as much as Rs 31 crores, so that the corporation's net worth at the close of 1968-69 stood at Rs 45.63 crores.

Surely this is a unique achievement for any public sector undertaking of similar standing. But, perhaps, more outstanding still is the record of Air-India in regard to the raising of foreign loans. First, it raised \$70 million (Rs 52-1/2 crores) for its fleet of 10 Boeing 707 aircraft; of this, it has already repaid—and this is equally noteworthy—\$53 million from its own earnings! Subsequently, it raised a further \$93 million (Rs 70 crores) for three Jumbo jets, which are expected to be delivered between 1971 and 1972, and it is on the cards that, if and when the fourth Jumbo jet is also sanctioned, the total foreign loans—both already nego-

tiated and negotiable—would go up by a further $30 million, to very nearly $200 million. Nothing could be a more striking proof of the confidence of foreign financial circles in such a relatively small-sized corporation as Air-India (compared to the giant-size corporations of the world. Could it all be the trick of the Maharajah ?

What are the prospects, immediate and long-term ? Immediately, it would appear, Air-India should more than feel satisfied to repeat the results, if not inch up slightly, next year. This is because, as Mr Tata observed, pending the delivery of its Boeing 747s, Air-India's operations will remain substantially at the same level as in the current year, for, with the high rate of aircraft utilisation already achieved, there is little margin of capacity for expansion. There may, however, be some marginal increases in the frequency of some routes and also a few additional new stops as, for example, in Beirut and Copenhagen. But these swing-gains may be more or less offset by the roundabout-losses due to rising costs, which do not appear to have slowed down their upward tempo, let alone stop. By far the heaviest are the burdens of debt and wages. But if new fleets are to be had, as they must be to keep pace with international airlines, Air-India cannot but go in for more debts.

In the long run, as Mr Tata himself admitted, the task of Air-India, even as of all international airlines, is going to be an arduous one. Unlike Indian Airlines, Air-India is not a monopoly and has to compete with the 24 or so most modern airlines of the world. First, it is a relatively small Asian airline thinly spread over the world; secondly, thanks to travel restrictions on Indian citizens —woe be to the P form—it does not enjoy the full advantage of its own ethnic traffic unlike other international airlines. Thirdly, judging from the orders already booked for costly large capacity jets, the additional capacity offered on the world's airlines is likely to exceed the traffic for some years, which means continued prevalence of low load factors, on the one hand, and fiercer world competition for the available traffic on the other. Air-India will thus face, to quote Mr Tata, "a challenging task in meeting such competition, particularly if restrictions on travel abroad by Indians continue."

Mr Tata, it is noteworthy, does not apprehend difficulties, even technically, because of the transition to the Jumbos, except perhaps for ground handling at our insufficiently developed airports. Although official spokesmen claim, as they did in New Delhi on New Year's day, that "all the four international airports, namely Calcutta, Bombay, Madras and Delhi, are perfectly suitable for operation by Boeing 747 even today", it is known that facts are otherwise. If not, there would not have been any occasion for the Air-India chairman to complain that "the continuing delay in enlarging and modernising our airports may create serious bottlenecks."

Along with the upgrading of our airport facilities, action must also be taken to make up the leeway in regard to hotel accommodation which, it is feared, will be the real retarding factor in our country. We can't afford to feel complacent with the entry of Air-India into the hotel industry by going in for a 300-room hotel in the Juhu beach and a 100-room transit hotel at the Santa Cruz airport. These are welcome, but not enough. Surely nobody expects foreign tourists to settle down to any billet such as the delegates to the recent AICC show at Bombay had to do. If the flow of tourist traffic to India is to increase to the full potential of a country with so many attractions to offer such as ours and further loss of foreign exchange earnings is to be averted, the accommodation provided for tourists in all categories of hotels, motels and rest-houses will have to be multiplied many times from its present level. Here is a potential avenue too to increase employment opportunities, even as there would be if internal travel facilities—air, road and rail alike—were also to be increased correspondingly, as indeed, the situation warrants. But it won't do if, like Rip-Van-Winkle, the government were to sleep over even such a thing as giving its approval to the acquisition of additional aircraft by Indian Airlines for over two years. Meanwhile, we hear that India is being increasingly by-passed by tourists in favour of other countries offering relatively better facilities and services.

Jute at Leisure

IF THE West Bengal government were really serious in improving the health of the jute industry, it should have ordered an enquiry into its problems in a different manner from what it has now done. The government has set up a four-man commission under the Commission of Enquiries Act to examine the affairs of the jute industry. An analysis of the composition and terms of reference shows that, in setting up the commission, the government is influenced not so much by a genuine anxiety to improve the competitive capacity of the jute industry but by other motives.

The commission consists of Mr N. K. Sen Gupta, retired Joint Secretary to the union Ministry of Finance as the chairman and three members, namely, Mr A. Chatterjee, technical expert of the Indian Standards Institution, Dr A. N. Bose, head of the Industrial Planning Team of the Calcutta Metropolitan Planning Organisation and Mr N. C. Roy, retired Additional Director of Agriculture, West Bengal. While these gentlemen may be quite competent in their respective fields, one wonders how far they will be able to understand and analyse the various and complicated aspects of the working of the jute industry. None of them seems to have any experience of the problems of production or export of such a major industry. The commission may be expected to obtain technical advice from other sources during its enquiry but unless some of its members themselves have an adequate background about its main problems, it is doubtful if it will be able to do a competent job. The government should have taken on the commission at least the Jute Commissioner and one or two representatives of the jute trade and industry. But perhaps it did not want the Jute Commissioner since he represents the central government; and it will not have anybody from the industry and trade since he is bound to voice only the capitalist point of view!

The terms of reference of the commission are interesting and intriguing. They include a study of the following: present state of affairs from the cultivation of raw jute to the production, sale and export of jute goods; condition of jute mill workers and jute growers; costs of cultivation; impact of the land tenure system, pattern of financing; forward and speculative purchases of raw jute; the market mechanism for purchasing raw jute; the part played by intermediaries in procuring raw jute and measures necessary to achieve self-sufficiency.

Another subject that the commission has been asked to examine is the interlocking of interests between jute industry and other industries and between jute groups and other trading groups; the part played by such inter-locking in hiding the correct position of the jute industry and the steps to be taken to stop these devices. The commission has also been asked to assess the role of speculation, forward and hedge trading, share market operations, under-invoicing and over-invoicing, supply of sub-standard goods and other malpractices. And, more significantly, the commission has been called upon to

examine to what extent jute workers have been deprived of their legitimate share of the wealth produced in the industry and find out the factors and persons reponsible for the present condition of the industry.

There can be no two opinions about the imperative need to set the jute industry in order. In fact, in recent months the industry on its own initiative has taken several measures in this direction. For instance, the Indian Jute Mills Association has set up a complaints committee. Though the number of complaints received by the IJMA from buyers is small, it is felt that the utmost vigilance is necessary because of the tendency to magnify them out of all proportion. In this context, the following remarks made by the chairman of the IJMA in last April are relevant. "Vast changes have taken place during the last decade in the conditions under which we have to operate, but the industry has not been able to gear itself fully to these changes. Too large a section of the industry still tends to treat raw jute and finished goods as speculative counters instead of raw material and the end-product of an industry. Our marketing systems both in raw jute and finished goods are antiquated and totally inadequate for today's needs. The industry also has not paid sufficient attention to the growing and the grower of its raw material. Today, however, the industry is generally aware of these deficiencies—steps are being taken to correct them, but admittedly it will take some time to make such radical changes. As far as the association is concerned, a complete re-organisation is in process which it is hoped will make it a more effective and forward looking organisation capable of meeting the challenges of today."

In view of the jute industry's keen anxiety to improve itself, there is no reason (other than ideological) why the West Bengal government could not associate its representatives with this enquiry. It could also have sought New Delhi's co-operation since in any case this is necessary if the commission's proposals are to be carried out. In fact, a better course would have been for the centre to appoint such a commission with the representatives not only of West Bengal but also of the other jute growing states. That would have given the commission a better status and helped the country to know authoritatively and precisely what the maladies of the jute industry are and how to tackle them.

The jute industry is of enormous importance to West Bengal especially from the point of view of employment. Almost one person out of every four in West Bengal is said to be directly or indirectly connected with jute. One would therefore expect the state government to deal with the difficulties of the jute industry with urgency and realism. But the composition and terms of reference of the commission do not show much evidence of serious approach. Significantly, the commission has not been given any time-limit for submitting its report. It can therefore afford to proceed with its work leisurely and need not ask (as commissions generally do) for extension of time for submitting the report. But when, in due course, the commission does produce its report, it is doubtful if the ministry which appointed it will be there to implement

uberant verbosity was apt to run away with him."

THE IDEAS OF SRINIVASA SASTRI

DR A. APPADORAI

SRINIVASA SASTRI, whose centenary was celebrated last year, was born on September 24, 1869, and passed away in 1946. It would have warmed his heart if he had lived to see India free, for a passionate love of the country was the outstanding mark of his life and career. Teacher, public worker, legislator and elder statesman, Sastri gave of his best to the country. A distinguished orator, he held audiences spell-bound. He was President of the Servants of India Society and successor to Gopal Krishna Gokhale.

There is a short autobiographical essay entitled 'The Story of My Admission' (1926) in his *Speeches and Writings** which gives the story of how Sastri took courage in giving up a career of promising affluence to take up the austere and dedicated life of a servant of India. A brilliant student, gifted orator and successful teacher and headmaster of a high school in Madras, it required all his resolution to persuade the members of his, not affluent, family to let him join the Servants of India Society.

Act of Self-Sacrifice

It was an act of self-sacrifice of a noble kind; but it paid well in the form of opportunities for service for which his heart was yearning. He became member of the Imperial Legislative Council and delivered critical speeches; gave evidence before the British Joint Parliamentary Committee on the Montagu-Chelmsford Reforms; was member of the Acworth Committee on Railways; was elected to the Council of State under the Montagu-Chelmsford Reforms; was a delegate to the Imperial Conference at London; a Privy Councillor; Member of the British Empire delegation to the Conference on Naval Disarmament at Washington, presided over the Provincial Liberal Conference and the National Liberal Federation; Agent-General of the Government of India in South Africa; member, Royal Commission on Labour and Member Round Table Conference and Vice-Chancellor, Annamalai University. In all the work that he did he brought to bear his vast knowledge of public questions, public interest and sense of compromise, which won him appreciation all round.

The selection of Sastri's speeches and writings in two volumes is representative, and, on the whole, well done. The present writer would, if he had a say in the selection, also have selected for inclusion Sastri's Mysore lectures on Gokhale, in 1935, for here we have not only an account of Gokhale's work and character by one who was in a unique position of closeness to Gokhale, but we have also reflected there the political attitude of Sastri. There is also an excellent introduction to the volumes by N. Raghunathan, formerly of the *Hindu* who neatly summarizes the main landmarks in Sastri's life.

Social & Political Ideas

In this short article I shall draw attention to those social and political ideas which are more relevant to the present times than others. Education must fit man for the task of enlightened citizenship; a liberal education, often condemned by those who commend science and technology, is for him a useful preparation for enlightened citizenship.

Universities are centres which should stimulate curiosity by wide reading and purposeful discussion and should also help in the cultivation of the balanced mind. He strongly supported individual freedom, ordered progress and universal suffrage. A liberal and moderate in politics, he was, as stated in the introduction, "of all Liberals, the nearest in sympathy with the Gandhian Congress even when he was most bitterly deploring its politics as inimical to the long-range interests of the country." He denounced racial discrimination. In his speech at the Montreal Reform Club, he prophetically said that, in spite of the disadvantages of British rule, India would nevertheless forget the past and be true to the British connection "provided that the Empire is what it purports to be, an organization of free peoples, coming together freely for the maintenance and extension of free institutions."

Raghunathan rightly recounts that the intemperate and often ill-timed panegyric of empire brought Sastri a great deal of odium in his time; but it was characteristic of him that, as Nehru in his autobiography recalls, he, of his own accord, expressed regret for one of his speeches in which he had spoken disparagingly of jail going and explained that "he was much influenced always by his surroundings and his exuberant verbosity was apt to run away with him."

Of his specific political ideas, I shall mention three : the right to resist the state, compromise and citizenship.

The foremost political idea which Sastri held with conviction and expressed forcefully in his speeches—and which has great relevance to the contemporary situation in India—is that while the citizen has a moral right to resist the state, the right—and the duty—of resistance must be exercised with the utmost circumspection.

No one, he said, can question the right of each citizen to judge for himself in the last extremity : when he has fought his fight and failed to undo a public wrong; and he feels in his conscience that he cannot acquiesce in it, nothing ought to keep him from resistance if he thinks he should resist. But extreme caution is required in taking up this duty.

The reason is simple. There are many things in public life, many things indeed, of which the indirect consequences are far more important and serious than the direct consequences.

Misjudging Duty

To say, "Here is my duty : I see it in front of me, I care not whether the deluge follows," is entirely to misjudge one's duty. For when you do something serious, somewhat out of the way, you are bound to consider what reaction it will necessarily have on society and whether the result, taking the bad with the good, will still be on the credit side of the account or leave the community worse than when you meddled. That consideration, according to Sastri, is not timidity but necessary regard for public welfare.

A second political idea which Sastri expounded with great clarity is the need for compromise in politics. There was widespread criticism in India of the stand taken by Gokhale and Gandhi that in order to secure good treatment for some hundred thousand people of Indian origin in South Africa they agreed to surrender the right of free and unrestricted emigration to South Africa for the Indian people.

Sastri, in his *Life of Gopal Krishna Gokhale*, defended the action of Gokhale and Gandhi on the ground that compromise, i.e. giving away something in order to obtain something is a legitimate procedure in public affairs.

Let his defence of compromies be put in his own inimitable way. "We want 1, 2, 3, 4, 5, 6 things. All of them

* *Speeches and Writings of The Right Honourable V.S. Srinivasa Sastri*. 2 vols. The Rt. Hon'ble V.S. Srinivasa Sastri Birth Centenary Edition, September 1969.

seem to us indispensable matters of first-rate principle which must not on any account be given away. But if you are to serve your countrymen in your generation you must learn this : that in a conflict with another nation like yours who hold their rights equally dear it is not possible for you to get all these 1 to 6 at once.

"Some of those might have to be given up in order that certain others may be gained. So managed, compromise is perfectly legitimate; it is honourable. It is in fact, the only course practicable in politics."

How much one wishes that a sense of compromise were more widespread among our leaders.

And third. True citizenship means on the ethical side, he said, the spirit of self-sacrifice for the benefit of the community, in other words, the quality of public spirit which in matters, small as well as great, inclines a man habitually to prefer the general good to his own whenever they conflict.

But he added there was also an intellectual side to this which was not less important—the sound practical judgment which enables one to know the true from the false and the good from the bad and, more difficult still, the true from the plausible and the good from the attractive. Again, politics will gain immeasurably if this sage advice, born of personal experience, were understood and acted upon in contemporary India.

Frankly Speaking

R. V. MURTHY

RECENTLY, i.e. between December 31, 1969, and January 8, 1970, three important speeches were made, one in Bangalore and two in Bombay, by a leading industrialist (Mr G. D. Birla), a leading economist (Prof. Arnold Hicks) and a distinguished retired civilian (ICS) (Mr H. V. R. Iengar), respectively. Mr Birla was addressing the Mysore Shareholders' Association. Prof. Hicks was addressing a public meeting under the auspices of the Bombay University, and Mr Iengar was giving a Pranlal Devkaran Nanjee Memorial lecture. The studied observations of these eminent men deserve to be more widely publicised not only for the benefit of our people but our politicians as well.

Ere now, Mr Birla has established a reputation for being able to speak with a smiling face even with the talk of depression all round. He is among the few who never concede that India's future is bleak. He is also one of the few who is not afraid of change. According to him, "the invasion of change is the most frightening thing only to people of old ideas." Hence his address to Mysore Shareholders' Association was frequently punctuated with the exhortation: "Don't be panicky—India is bound to progress. Let us all dedicate to promoting affluence in this country and raise the standard of living of the common man."

It is noteworthy that Mr Birla is not unduly perturbed by all the extremist slogan-mongering that we have been—and are still being—treated to these days. In his characteristic way, he referred to some of the more fashionable ones and after merely explaining where these would lead to, left his audience to draw its own conclusions. Alluding to the oft-repeated official declaration that stock exchanges are only places of gambling, he cautioned the country about the serious drop in investments and its likely repercussions. He said : "The crisis had just begun. There are no new floatations. There will be scarcity of good scrips.... There will be scarcity of goods also. Already signs are visible. We see clearly that scarcity is coming, because no new productive enterprise is undertaken."

After sounding this grave warning that "we are on the eve of a serious famine of commodities.", he emphasised the point that "the only remedy to remove this scarcity is more investment, more production and more employment. As he added, there is no other royal road to this."

Mr Birla is not bothered about any "isms", and he said so to his Bangalore audience. "Whether it is the socialist system or the communist system", he made it clear, "without production, there is no employment. In every country, whether it is Russia or any other country, we must have more investment, more production, *with a good government and efficient administration.*" (ital. ours). These are also the points that Mr Iengar stressed, as we shall presently indicate. Mr Birla is obviously more concerned with results and not talk of socialism or what not. So his thesis : "Unless we dedicate ourselves to raising the standard of the common people, we won't survive. It is not philanthropy or philosophy that I am talking about. It is enlightened necessity. If the country flourishes, we all flourish. If the country does not flourish, then we shall all go down. Therefore raising the standard of the common people must be our aim." No true socialist could take exception to this "Birlaism", if we may say so.

Take, again, Mr Birla's summary disposal of the slogan "Rich is becoming richer and poor is becoming poorer." He said : "I don't think statistics prove it. But there is one thing : the chief distress is spread over the middle class (a point that has been altogether missed, or conveniently slurred over, by our politicians). The poor is not becoming poorer." And he went on, and here is his refreshing realism: "But, ultimately, we must all realise—all those who are well-to-do—that this disparity between the highest and the lowest will have to be narrowed down. You cannot help it. It has happened in several other countries and it will happen here also."

Then he dismissed the persisting talk of the Tata group or the Birla group even after the abolition of managing agents as "all nonsense" and dubbed it as downright ignorance to speak of Tatas having assets of Rs 700 crores or of Birlas having assets of Rs 500 crores and so on. The shareholders are the real owners of these assets today, he said, and made no bones about telling them that it is with them and for them to have him as the manager of their assets with honesty and efficiency. "The day you whisper– we don't want you—I get out", he added. He even went to the extent of saying: "The shareholders must come out and say: 'Whose assets ? We have put our hard cash in Mysore Cement. We have put our cash in Hindustan Aluminium. You are managing affairs at our sufferance' ".

European Example

Many people are disturbed with thoughts of stability—political stability, but both Mr Birla and Mr Iengar drew pointed attention to how people went on working without any political stability in some parts of Europe, because the private sector there was having a life and a momentum of its own and a capacity to develop, irrespective of the competence of government. What is hampering economic growth in our country is not so much political instability although the prospect of it cannot but be a shuddering thought as the uncertainty about government policy. If there is a measure of certainty about policy, no businessman would bother about politics or politicians. But, as it is, as Mr Birla remarked, how to leave politics to politicians is rather difficult to appreciate. Meanwhile, he did well to exhort businessmen to be proud of the important part they have played and not to suffer from any complex, a psychology some of them

seem to have developed perhaps after being continually subjected to high pressure, but often wholly unwarranted, criticism at the hands of the left extremists in our country.

Prof. Hicks must be really complimented on the great service he has rendered to the cause of economic growth in this country by the two important points he made so persuasively, also so learnedly, the latter is important from the point of view of our intellectuals, many of whom seem to deem it a fashion to pass off for socialists. The two points he made are (1) that the great rise in the material standards of the workers could not have occurred without industrialism and (2) that, if only to reduce the burden that would be thrown on the labour otherwise, developing countries would do well to accept international investment.

To quote his own words, "if any country is able to borrow abroad during a bad patch, to repay later when it is much more capable of repaying, the difficulty is overcome." Prof. Hicks was not oblivious of the obstacles to the application of his solution to developing countries, although he did not (or could not, for want of time) enlarge on them, but he recognised the existence of obstacles at both ends, which to him, however, were not insuperable, though formidable.

In the course of his brilliant lecture, Mr Iengar made the notable point that, although on the basis of strictly economic factors—if these could operate in isolation—we are really poised for sustained economic growth, there is a grave danger that all these factors may be rendered infructuous by growing political disorder. In his inimitable way, he traced the genesis of this to the gross neglect of administration, on the one hand, and the steadily eroding law and order situation, on the other.

Recalling the previous crises—one following the partition and the other when the Chinese attacked us—he described the present crisis as an even graver one which might spell untold difficulties for our country because of one important factor, namely absence of a firm and accepted leadership at the centre, more so since the split in the ruling party. "Irrespective of whether the ruling Congress or the opposition Congress forms a government", he said, "it is clear that we have to reckon with the practical certainty of the continuance, for quite some time, of government being formed by a minority party supported by coalition with other political parties". Drawing on the basis of experience in our country, he was right in holding: "such conditions will be weak and unstable."

Mr Iengar's concern was not whether the Prime Minister is or is not a communist—in fact, he said it was "malicious" to make such a suggestion—but he was categorical as to the baneful effects of the "decisive marginal influence of the communists on the structure of government at the centre" in the situation created by the fragmentation of the Congress. To him—to any dispassionate observer of current events, for that matter—"the awful tragedy is that, although everybody knows what has happened in Kerala, and what is happening in West Bengal, neither of the conflicting groups seems to bother about this."

Mr Iengar dwelt at length on the consequences of these developments to economic growth. Economic growth obviously becomes extremely difficult in conditions of political instability. The situation is tragic, as he observed, because, "for the first time since independence, we have been able to see the possibilities of a real breakthrough in agricultural production, but this breakthrough is being jeopardised by a failure in the most elementary task of any government, namely the maintenance of law and order." In the field of industrial development, as he added, one is much more dubious in regard to the possibilities of growth during a period of such instability."

Mr Iengar, who has had first-hand experience of the working of the government, did some plain speaking on the way our government has come to depend upon a whole system of controls to implement its five-year Plans. After illustrating the "extraordinary pervasiveness" of these controls with reference to the sugar industry, he said, all this required, for effective functioning, a

bureaucracy which is at once knowledgeable, efficient and known for integrity, which was preciely what was woefully lacking today. He also regretted that while every party was competing with each other in what he termed "uncreative aspects" of economic policy—"nationalise this" or "put a ceiling on that" or "take over the control of this by the state" and so on—no one has thought it fit to state, as Jawaharlal Nehu repeatedly used to do, that the basis of all economic growth is hard work and discipline all round. As both Mr Birla and Mr Iengar said, there is no short cut. Further on, Mr Iengar was equally critical of the inability, or unwillingness, of politicians to appreciate another hard reality of life—*viz.* that "distributive justice is essential, but the essence of sound economic policy is that there must be increasing wealth to distribute."

Mr Iengar was most convincing when he concluded—and we cannot but use his own words here—"if there is one lesson to be drawn from recent Indian experience, it is that the less pervasive government's interference with the development of the economy, the better it would be for economic growth. It is regimentation that is likely to stifle economic growth rather than freedom ....There may be some evils in a relatively free society, but these evils will be less damaging to economic growth than the evils of a highly controlled economy". As Mr Rajagopalachari has never missed an opportunity to drive home, the Indian people have a capacity for sustained economic growth only in conditions of reasonable freedom.

Pragmatism on the "Joint Sector"

A CORRESPONDENT

MAHARASHTRA which has been foremost among the states in the race for progress has been the first officially and actively to sponsor and take practical steps for the development of a joint sector in the interests of speedy industrial growth in the country. In a statement recently the Finance Minister of the state, Mr S. K. Wankhede, said that the country was already having a mixed economy with its private and public sectors. The co-operative sector was also playing an important role in development. Now a fourth one—the joint sector—should be developed.

As Finance Minister he knew how difficult it was to raise funds by way of taxes to finance development projects, and there were limits to increasing taxes for the purpose. Large funds and talents were available in the private sector and they could be mobilised and used for the good of the country in collaboration with the public sector in the form of a joint sector. The state had taken practical steps in that direction. The Kamptee fertiliser plant was being set up in the joint sector. A private entrepreneur and the state government through the Industrial Development Corporation of Maharashtra were jointly working on it. A similar arrangement was being worked out for setting up the Koradi superthermal power plant. The Tatas had made survey of the project before agreeing to collaborate with the state government in setting up this plant. The state government had approached the centre for clearance to the proposal in collaboration with the Tatas.

At about the same time the Industries Minister of Tamil Nadu, Mr S. Madhavan, made a statement that the DMK government favoured the joint sector and the proposed fertiliser plant at Tuticorin would be in the joint sector. He is further reported to have stated, "We make high sounding speeches about the concentration of economic power in the hands of a few individuals. We want to do justice politically and economically to the down-trodden. We want to curb monopoly and vested interests. This does not mean that government should encroach upon all the fields of economic power. I strongly feel that economic power should not be concentrated in the hands of government."

It is refreshing to find such pragamatism from government spokesmen. If the country has not made as much economic progress as it should have during the period of the Plans, if it has had to groan under the burden of higher and higher direct and indirect taxation, it cannot be denied that it is in part due to the fact that the surpluses which were expected to be generated from the public sector for the benefit of the community have not materialised.

The assumption in the third Plan that increased profits which in the private sector would create inequalities (and possible conspicuous and wasteful consumption),would be directly used in the public sector for capital accumulation has not proved justified, for the simple reason that a number of major projects in the public sector have not yielded returns to cover even interest on the capital invested, let alone generating surpluses for development and expansion.

We should not persist in the ideology of keeping on expanding the public sector at all costs, if we are to benefit from our past experience, from the experience of other countries like Japan, from what has been said by economists right from the time of Adam Smith, who, it may be recalled wrote in his famous book that no two characters seem more inconsistent than that of trader and sovereign and that the post office was perhaps the only mercantile project which has been successfully managed by every government. It might be mentioned here that Japan, after its economy was completely disrupted by the war has made great strides in economic development resulting in a vastly improved standard of living. The underlying approach of the Japanese plans was to restrict to the minimum direct measures by government and give free scope to private enterprise, recognising that it is the motive power for the development of the economy. In the post-war period, capital formation was undertaken primarily in the private sector. The government gave indirect assistance to industries, particularly the steel and electrical power industries, for instance through the facility of the Japanese Development Bank and other official institutions.

Inherent Handicap

What then are the factors which are an inherent handicap to public sector enterprise in this as well as other democratic countries, and which make it lack the dynamism of the private sector? It has been the experience of other countries that the system of private enterprise has conduced not only to self-reliance but higher standards of living for the community. The use of capital under private enterprise has to pass the test of the market. The purpose of economic activity is to produce goods and services economically. Under private enterprise the most efficient producers come up. The yardstick is profitability. The resources of the community are thus directed to the production of what consumers want. There is constant pressure for improvement, for innovation.

In public enterprise, there is less flexibility in the carrying on of business and the yardstick of the market is replaced by political control. While under private enterprise, the spur of competition makes for initiative, flexibility, readiness to take risks, quickness of decision, the reverse is the case in public enterprise. The basic urge to reduce cost and prices, provided by competition, is absent. Prof. Reynolds of Yale University, in his book *Labour Economics*, neatly sums up the inherent handicaps of public sector enterprise, "A government enterprise is under irresistible public pressure to make uneconomic decisions. The union will expect a government agency to be a model employer and to give in with good grace to wage demands...... Particular areas of the country will

work through political channels to get plants and facilities located there, whether or not the location makes sense from a cost standpoint. The political pulling and hauling may lead to losses which will have to be met from the general revenues. Political intervention in appointments may make it difficult to recruit management officials on a merit basis. The management of a government monopoly may be characterised by rigid procedural rules, elaborate paperwork and skilled buck-passing. This can cause serious delay in decisions, poor service and arbitrary treatment of customers......It is hard to mediate the conflicting pressures from workers, consumers, legislators and others."

Again so far as industrial relations are concerned it is easier for the state "to hold the ring" in labour disputes between private employers and their employees. But the position is complicated and difficult when the state assumes the role of an industrial employer. Further, it has been found from experience that discipline has been difficult to maintain in public enterprise. However over-staffed a concern may be, it would not be feasible to effect any retrenchment to reduce bonus under production bonus schemes once introduced, however necessary it may be, and so on.

Difficult Position

The position is even more difficult when government runs an industry under monopolistic or semi-monopolistic conditions. Prof. W. G. Robson in his book *Problems of Nationalisation* has quoted the following apt observation of Lord Salter:

"In relation to private industry, collective bargaining has been of inestimable benefit. In every bargain both sides know that beyond a certain point increased costs would bring bankruptcy, which would be disastrous to all in the industry. That safeguard no longer exists in the nationalised monopolies. Since they are monopolies, they can pass on increased wage costs to the consumer, who has no alternative, till he is himself broken. And if even then there is still a loss, the taxpayer, in spite of some illusory safeguards in some of the Acts has to bear it. What, in these circumstances, is bound to be the result when a managing board is faced on the one hand with an insistent demand, and the immediate stoppage of a great public service, if it is not granted, and on the other hand only with the fact that if the increased cost is incurred, charges must be raised to the consumer, and if that is not enough, a net loss is shown in the accounts? It is inevitable that costs and charges will rise, and rise out of relation to those in the private industries, especially the exporting industries, which can neither sell to customers who have no alternative nor resort to the Treasury."

It has been said that it was necessary for the state to launch certain basic industries for which private capital would not have been sufficient or was not forthcoming for starting industries in relatively backward areas which private enterprise would not have found profitable. But all this could have been done after inviting collaboration, both in regard to capital and management and giving necessary incentives to private enterprise to collaborate and thus utilising its available technical personnel as well as entrepreneurial abilities.

It is welcome that in two states it has been recognised that the public sector alone cannot deliver the goods, that the state is not in a position to keep on increasing taxes to finance development projects, and that funds and talents available in the private sector should be utilised in the joint sector. That way the accountability to the public would be more effective and there would be a greater spur to efficient and economic management than the political accountability to Parliament. It is also a matter of satisfaction that the Prime Minister has also stated that the private sector has a place in the socialist economy envisaged by the Congress and it can help in ushering in socialism.

Lastly it might be mentioned that while the Dutt Committee report on licensing has met with much criticism, in regard to the joint sector it shows some degree of realism. The report emphasises that the idea that financial assistance and equity holdings should not be normally used by the state and the public financial institutions for appropriate participation in the private sector concerns needs to be firmly set aside.

The report further states. "Where a very large proportion of the cost of a new project is going to be met by public financial institutions these projects should be in the public sector, but this does not mean that ordinary shareholders and even some private concerns may not be associated with such projects." The report goes on to say, "It may be that for some time to come government might decide to permit projects with significant proportions of public financial assistance to remain in the private sector. In that case, however, we would like to emphasise that they should be clearly treated as belonging to the joint sector and not to the private sector " On this point the report ends by saying that the development of the joint sector, on the lines proposed in the report, would be an important instrument for the attainment of the objective of curbing the increasing concentration of economic power and is likely to be more effective than licensing.

Eastern Economist 25 Years Ago

JANUARY 26, 1945

Exactly one year ago when the country lay dazed in the grip of intense political frustration and an unprecedented economic crises in the shape of acute famine and inflationary conditions, eight industrialists from Bombay, who were apparently doing some hard and sober thinking, sprung upon the country their first memorandum on a national economic programme, which has since come to be known as the Bombay Plan. The first memorandum at once caught the imagination of the country by its sweep and daring and attracted widespread attention all over the world. Truly it could be said that the memorandum set the pace for economic thinking in this country and imparted to it direction and purpose. But the first memorandum had only set the problem of production in its correct proportions and economic bearings while the crucial question of the structure of planned economy—in short, the question of distribution, the role of the State and the organisation of the economic system—were purposely left out for a later manifesto. It is true that ends and means are not easily separable even for purposes of economic analysis and the procedure of the Bombay planners in first setting out the targets or ends before the means could be seen in the totality of their relationships, was slightly unfortunate. For it gave many unconstructive and carping critics a convenient handle; and especially those who had not the competence to study the Plan at a technical level could be led away with such sloganized attitudes that the Plan was intended to make the rich richer and the poor poorer.

WINDOW ON THE WORLD

EPITAPH TO FOREIGN AID

H. R. VOHRA

WASHINGTON:

CONGRESSMAN PASSMAN and men of his ilk are not the only enemies of foreign aid to contend with. There are others who call themselves liberals but are exceedingly stingy in helping the poor beyond the US borders. The Passman group is easy to understand. They hate aid and the people who seek to give or take it with equal venom. They suffer from liver. Their's is a case of inverted missionary zeal.

But how does one account for illiberal liberals? Their opposition arises partly from political pique and partly from frustrated ambitions. The leader of this group is Senator Fulbright. His followers include Senator Symington and Church who satisfy their ego by pecking at presidential powers.

They overdraw on a one-line confession by the former Secretary of State Dean Rusk that before military commitment there was economic aid to South Vietnam. They infer with demonic simplicity that if there had been no aid there would have been no Vietnam war. They have apparently convinced themselves and are now out to convince others that if there are to be no future Vietnams, the thing to do is to smother aid all around the world.

Perverted Inference

To them aid is the root of involvement and an originator of war. How different is this theory from the other that a contented people, helped to stand on their own economic feet, would not look across their shoulders to communist allies who foster restlessness and an ideology of internal and external aggression.

In their anxiety to end the Vietnam war, they have made a somersault in their own earlier thinking when they supported aid both on humanitarian and political grounds. Now for false and adopted political reasons, which suit the changed domestic scene, they are forsaking their global vision, withdrawing instead, into a narrow national cacoon.

They show little regard for the security of small nations threatened by their powerful neighbours. Their disrespect for the countries which border on the Pacific is well-nigh total. They are peopled, they sometimes argue, by races with which the US has no affinity. Why worry about a people of a different culture? This is what they seem to ask.

Their respect for existing commitments is minimal. It is greatly outbalanced by their desire to curb presidential discretion in the sphere of foreign policy. They wish to foster congressional right to "advise and dissent," thus impliedly modifying the constitution.

If they had their way, they give the impression, they would soon fold up the American umbrella over South Korea. They would joyously barter the freedom of Taiwan for a favour from Peking. They would also renounce the Tonkin resolution (to which they were a party) which is now the main legal plank for US presence in south-east Asia even more than SEATO.

International Equation

If their logic prevailed, India could no longer expect sympathy or help from the US should China again aggress on her borders. India being a smaller factor in the intenational equation, at least in terms of power, than China, they would use their legalistic acumen in favour of China as some US historians have done about the events of 1962.

By pounding away on their isolationist approaches, they have already spread abroad the impression that the US itself stands for their concepts of Asia.

In international relations, as in other human affairs, psychological factors count for a great deal. Hitler's march across German borders was promoted partly by his impression that the US was in no mood to participate in another European conflict. Supposing Mao imbibed the same impression?

By broadcasting the notion that the US is too worried about domestic problems and too tired after Vietnam to care for Asia (or any other part of the world) the US "liberals" are unwittingly unleashing forces abroad whose consequences others would suffer much sooner than the Americans.

It is however doubtful if the Americans could escape them too long. The US liberal policy comprises three negatives :

(1) No more military assistance.

(2) No more economic assistance if possible and only a little through international agencies, if necessary.

(3) No more political commitments abroad.

Here is a supposedly perfect triple formula to blanket out the world in the vain hope of permitting Americans at home to solve domestic problems which their unrestricted affluence has created. It is nearly as profound as the old Chinese prescription: Hear no evil: see no evil: do no evil.

Amoral Approach

The liberals would have no truck with military assistance although one would have imagined that helping threatened countries to stand on their own defensive feet would be the most plausible way of escaping physical involvement. And there is no greater proof of their negligence and their amoral approach than their increasing clamour about the dangers of continuing economic aid.

Their cussed attitude is best reflected in the report of the Foreign Relations Committee on aid authorization. It says that "the focus of the committee this year was not on the size or make-up of an aid bill but on whether there should be an aid bill at all."

At another stage it adds : " When all is considered, it is remarkable that the committee has recomended a foreign aid bill at all this year."

These passages reveal that the committee, which now has a majority of Fulbright liberals, actively discussed discontinuing aid. Luckily for the world it grudingly came to the conclusion that "the programme is in the national interest and should be continued until a better alternative is found."

The continuation, however, is at an increasingly slower pace. For economic development, the amount has dropped from 1.9 billion dollars in 1968 to 1.38 billion in 1969. This financial year, the Congress was unable to pass any aid bill at all. Now the question before the new session of Congress is whether there should be a new appropriation bill or whether a "continuing resolution" should be passed for the remaining fiscal year. If this happens, last year's meagre aid level would

prevail which means $ 1.38 billion. This would enable the US government to loan India only half the amount she expects to receive, further slowing her economic progress.

One thing is clear. Congress has remained uninfluenced by Lester Pearson's Report of the Commission on International Development that India is a major test of whether development can be significantly accelerated through external assistance "and by her record of success and even by her green revolution, one of the authentic marvels of our times," as Lester Pearson says.

Nor has the commission's assertion that India can do much better in the seventies than in the sixties found a favourable echo. The result is that India will continue to receive half her agreed needs in US aid and also less than half from the world as a whole against the commission's recommendation of $ 2 billion per year.

Internal Compulsion

Future congressional action would more likely be influenced by the impending report of the presidential task force headed by Rudolph Peterson of the Bank of America in California. Aid has been the subject of frequent microscopic examinations. Each new probe by a new group suffers from the internal compulsion of changing the structure of aid as well as its content in keeping with domestic political opinion.

Aid is now a dirty word. I would not be suprised if it is dismembered so that bits and pieces of the whole can live in different garbs in various other governmental departments or in international organizations.

There is talk of transfering technical aid to a separate federal agency as President's Science Advisory Committee has suggested. Senator Fulbright is pushing for chanelling economic loans largely through the World Bank. If these two ideas are accepted by the Peterson Committee, there would not be much left of US aid as we have known it. There will not be many resources with the Agency for International Aid to administer. In fact, the name of the agency would become a misnomer. It is doubtful if it would stay.

It is time, therefore, to ready an epitaph for the Agency for International Aid, a happy coinage of the illustrous Kennedy regime. Aid reflected the imaginative thinking of the youthful President and his belief that it is neither healthy nor moral for the US not to share her bounty with the rest of the world. He believed that it was downright unnecessary for the US to stew in its own juicy fruit of abundance. A country can wallow in wealth as in mire and come out stinking rich or stinking poor. There is not much odoriferous difference between the two.

It was in the Kennedy regime that India initially received promise of a billion dollars in aid in two years thus retrieving her from the sloughs of a depression. Kennedy thus sought to weave a happy bond between the two countries. He was succeeding more than any other President in improving relations between the two democracies when he was killed. Seven years after him, an institution of which he was author is in doldrums.

The Agency for International Aid which he renamed may change or disappear, aid will probably stay, but only a little longer. It needs to be made the best of as along as it lasts.

The uncertainty surrounding it is due to many reasons. They are both domestic and international. Some of them are well known. One reason is not often stated with requisite candour. It relates to the attitude of the recipient countries.

Some countries, distrubed by the fear of subservience, sought to demonstrate their independence by mouthing criticism of the donor. President Nasser played the game uncouthly and blatantly. There were others in the same category souring the atmosphere in which aid flourished. President Sukarno was another. India was only a shade more subtle.

Their technique of twisting Uncle Sam's arm to prove that they had remained uninfluenced by his favours had the predictable result of strangulating aid at the source.

So when the epitaph is written, and it cannot be long delayed, it would need to be noted that it died at the hands of donors as well as the recipients.

The moving finger writes

The Indian Express has rightly taken the Prime Minister to task for her amazing outburst that she could topple the C. B. Gupta ministry in Uttar Pradesh in a trice if she wanted to. Nothing succeeds like success, said Oscar Wilde, and Mrs Gandhi apparently subscribes to this view. Having successfully contrived the defeat of the official Congress candidate for the office of the President of the Republic, Mrs Gandhi seems to have convinced herself that everyone who holds a public or political office of importance in the country does so at her pleasure. This is arrogance of a kind which no democratic community can tolerate in its politicians without losing its own self-respect—and I am puzzled, indeed, how Mrs Indira Gandhi, who is rated by some to be a shrewd and skilful politician, could have been so indiscreet as to have inflicted such wanton damage on her own public image. At this rate it would not be necessary for her political opponents to prove her guilty of possessing an authoritarian mind; she would surely end by convicting herself out of her own mouth.

The Indian Express is also completely justified in pointing out that the Prime Minister's attitude constitutes a grave threat to the spirit of India's federal constitution. Mrs Gandhi is, sadly mistaken, indeed, if she believes that it is one of the prerogatives of her office to be entitled to cajole or coerce ministries in the states or their chief ministers to do her bidding. In the past many months, while fighting for her political survival—a process which promises to continue for some time to come she has been trying to use the golden handshake or the mailed fist, as the occasion might seem to warrant, in her endeavour to find allies or counter opponents in state governments. Thus, while chief ministers, such as Mr Karunanidhi of Tamil Nadu, have been courted with political bribes of one kind or the other, inconvenient satraps, such as Mr C.B. Gupta, have been sought to be cowed down by political blackmail of various kinds. If the Prime Minister perseveres in these wild and wicked ways of hers, such healthy conventions as have been set up for the federal functioning of the Constitution would soon join the list of casualties of the power struggle she has unleashed on the country. Mrs Indira Gandhi must realise that her leadership of the ruling party at the centre does not confer on her any authority or right of overlordship over state ministries or their chief ministers. Again, if it is her contention that she is entitled to function as a party leader as well as Prime Minister, it is high time that public opinion in the country had made it impossible for her to abuse the resources of her prime ministership for furthering the factional interests of her party.

It is, indeed, a major scandal that Assam's aged and ailing Chief Minister is being pressurised to linger in office mainly because it is inconvenient for the Indira Gandhi faction to take on at the present time the problem of the succession to the leadership of the Congress legislature party in Assam. We are told, on the one hand, that the veterans should be encouraged to relinquish office and seek retirement. On the other hand, when it happens to suit the mean calculations of the power struggle, even elderly politicians, who have reluctantly come to the conclusion that it is physically impossible for them to carry on in positions of responsibility, are being virtually commanded to die at their post. Mr B. P. Chaliha has served his party and his state well over a long period of years. He has thereby earned the right to call it a day, especially when he has been frequently falling seriously ill. It may be a matter of great moment for the Prime Minister personally and politically that Assam should be made safe for Mr Fakhruddin Ali Ahmed before Mr Chaliha may be permitted to quit the political stage, but it is certainly not good for the country or for Assam that opportunism of this kind should be practised without being challenged.

Age or ill health of persons holding high office, however, may not always be a cause of embarrassment for the Prime Minister. There is, for instance, Mr D. R. Gadgil, Deputy Chairman of the Planning Commission, whose reported intention to resign, if pressed, is unlikely to upset Mrs Indira Gandhi. On the contrary, she would certainly welcome a vacancy in the top executive position in the Planning Commission as this would afford her another opportunity to pay her political debts or disburse patronage. It is, of course, natural and necessary that Mr Gadgil should retire, if only for reasons of health. The point of interest is who would be chosen to succeed him and for what reasons.

It is already being suggested in the press that Mrs Gandhi would be inclined to settle for Mr C. Subramaniam. This would be a good choice for more than one reason. In the first place, Mr Subramaniam is certainly well-qualified, particularly in the political sense, to function at the head of the Planning Commission in an Indira Gandhi administration. Secondly, if he is accommodated in the Planning Commission to his satisfaction and hers, the country will be spared the unseemly spectacle of his scouring the country for a safe constituency for the Lok Sabha.

There is, to be sure, the problem of Mr R. Venkataraman, who is Member in charge of Industries in the Planning Commission. In the ordinary course, he should succeed Mr Gadgil, not because he has been particularly brilliant in the Planning Commission, but because he is as good a candidate for the job as any that Mrs Indira Gandhi is likely to be able to discover or invent. The trouble with Mr Venkataraman, from the Prime Minister's point of view, however, is that he has been far too closely associated with Mr Kamaraj. It is, no doubt, possible that Mr Venkataraman may also be one of those politicians who have newly discovered the usefulness of a ready or responsive conscience. But so long as the Prime Minister is able to shop on a fairly wide front, she may well be of the opinion that she need not opt for some one whose inner loyalty to her or her faction cannot be taken for granted.

* *

Whether Mr L.K. Jha has been kicked upstairs or kicked downstairs could perhaps be a matter of opinion. That he has been kicked all right is not to be seriously debated. It is some comfort, of course, that, even if the Reserve Bank may stand to lose through the transliteration of Mr Jha from its governorship to the ambassadorship in Washington, it may certainly be suggested that our embassy in the capital of the US would probably be a gainer in the process. It could be that some of Mr Jha's massive reputation for wisdom in matters administrative or brilliance in matters economic is merely massive, but there is no gainsaying the fact that, like Mr K.B. Lall, he is by training and temperament a person who takes pleasure and pride in the constructive pursuit of the purposes of good and effective government. His appointment as our ambassador in Washington should boost the morale of such of our businessmen as are planning to strengthen and promote fruitful relations with US capital and enterprise in setting up new industries in our country. By the same token, Mr Jha's presence in Washington could have a reassuring and encouraging impact on American business judgment as it proceeds to take a view of the investment possibilities of India in the new decade.

Mrs Tarkeshwari Sinha is reported to have remarked that Khan Abdul Ghaffar Khan, when he arrived in this country, was talking like Mahatma Gandhi but is now, in the latter part of his tour, talking like Mohd Ali Jinnah. What she says is not true. Even if it is, it would reflect more on our country than on Badshah Khan in the sense that the prevailing conditions in our country are such that they can turn a Mahatma Gandhi into a Mohd Ali Jinnah overnight. I wonder whether this implication of her words occurred to Mrs Sinha at all. In any case, it does no credit to her intelligence at all that she should even seem to question the *bona fides* of the Frontier Gandhi. It is not necessary, of course, that we should agree with everything that he has been saying, but we should certainly be mature enough to be able to listen with patience and goodwill to persons of such obvious sincerity as Khan Abdul Ghaffar Khan. It would be a sad day indeed when we, as a people, are no longer in a position to tolerate criticism even when it comes from sources which are friendly and well-meaning.

It is perhaps too much to expect of Mrs Tarkeshwari Sinha that she will always be discreet in her public utterances. It should, however, be possible to expect of people, such as Dr V.K.R.V. Rao, the Minister for Education in the central government, that he should display a certain sense of responsibility in his statements and observations. Speaking in the capital recently, Dr Rao commented on certain trends or developments in Australian politics or public affairs which might be taken to indicate the emergence of more liberal attitudes in that country towards racial questions. Here he was, undoubtedly, right. But he was clearly on less firm ground when he declared that he was convinced that Australia would revise, in the near future, its immigration policy in the direction of the removal of racial discrimination. I wonder whether Dr Rao really believes that this would be the case. If he does, then he must be living in a private world of his own. It is, of course, entirely proper that we should be saying polite and courteous things to or about friendly countries, such as Australia. But this does not warrant men in responsible positions, such as Dr Rao, making statements which must tax the credulity of any informed person. Among the many professional hazards of men in politics or public life is the credibility gap and, agile as Dr Rao is, mentally and otherwise, he should not deliberately try to create for himself a credibility gap of a kind which even he may find too wide to hop over.

V. B

Trade Winds

DEPRECIATION ALLOWANCE

FINAL RULES to amend the provisions in the Income-tax Rules, 1962, relating to the rates of depreciation allowances and connected matters, have been notified by the Ministry of Finance (Central Board of Direct Taxes), in a Gazette of India Extraordinary dated December 29, 1969. These rules have been formulated after considering public comments and suggestions on the draft rules published earlier on the same subject The scheme of simplification effected through the present amendments, essentially, consists in classifying machinery and plant under seven broad categories of useful lives, with rates of depreciation of 5 per cent, 10 per cent, 15 per cent, 20 per cent, 30 per cent, 40 per cent and 100 per cent, in replacement of the seventeen different rates ranging from 2.5 per cent to 100 per cent.

Under the new scheme, the general and residuary rate of depreciation in respect of machinery and plant will be 10 per cent, which would be applicable to all items of machinery and plant not coming under the lower specific rate of 5 per cent or any of the higher specific rates of 15 per cent, 20 per cent, 30 per cent, 40 per cent or 100 per cent. Items of machinery and plant which have a useful life of one or two years, and for which the earlier rules did not prescribe any specific rate of depreciation but provided for deduction of only the cost of renewal thereof, have been classified under the rate category of 100 per cent. This means that the actual cost of such machinery and plant will be deductible as depreciation allowance for the year in which they are first brought into use. This is apart from the provision in the Income-tax Act under which the whole of the actual cost of any machinery or plant costing up to Rs 750 is deductible by way of depreciation allowance for the year in which such machinery or plant is first put to use by the assessee for the purpose of his business or profession. This latter provision applies also in respect of machinery and plant for which the rate of depreciation under the rules is less than 100 per cent.

Another important change brought about through the amendment is that depreciation would be allowed for the full year even in respect of assets which had been used only for a short period during the year. Modification has also been effected in regard to the calculation of extra shift allowance for multiple shift working of plant and machinery. The extra allowance will continue to be allowed in proportion to the number of days of multiple shift working to the "normal working period", and will be limited to 50 per cent of the normal allowance for double shift working and to an amount equal to the normal allowance for triple shift working. "Normal working period", for this purpose, will be taken to be equal to the number of days for which the concern worked at least one shift during the year, subject to a minimum of 180 days in the case of a seasonal factory and 240 days in the case of any other factory, instead of the standard figure of 300 days under the earlier rules.

The rules also provide for the grant of extra depreciation allowance of an amount equal to 50 per cent of the normal allowance in respect of machinery and plant installed in an approved hotel run by an Indian company. This measure is designed to encourage the setting up of hotels of the required standard necessary for attracting touris. .

The new rates and method for calculating depreciation allowances will apply from the assessment year 1970-71, that is, with reference to income of the financial year 1969-70 or other accounting year corresponding to it.

INDO-YUGOSLAV TRADE

Addressing newsmen here last week, Mr K. K. Jajodia, Chairman of the Indo-Yugoslav business group of Calcutta, who led the second Indian businessmen's delegation to Belgrade in September last, expressed the view that the Indo-Yugoslav trade could be stepped up to as much as Rs 100 crores a year, provided, of course, a right approach was made by the two countries. In 1969, Mr Jajodia observed with a good deal of satisfaction, our exports to Yugoslavia at about Rs 26 crores were nearly double of the 1968 exports. With our imports from this country being around eight crores of rupees, we had in 1969 a trade balance in our favour to the impressive figure of nearly Rs 18 crores. In view of the credits made available to us by Yugoslavia in the past, Mr Jajodia opined, we have to continue concerted efforts to increase our exports to this country further. He said that we will have to have a favourable trade balance with Yugoslavia to the tune of at least Rs 18 crores for the next two or three years and to a somewhat smaller extent in the subsequent seven to eight years. Mr Jajodia welcomed the recent signing of a new trade agreement with Yugoslavia which has extended the rupee payment arrangement between the two countries till March, 1972.

The measures which the delegation has suggested for fostering Indo-Yugoslav trade further are contained in its report submitted to the Government of India a few days ago. Two sets of measures have been recommended by the delegation. On one set, action will have to be taken by the Government of India. On the other, the Yugoslav government has to take action.

Among the steps to be taken by the Government of India, the more important are: *(i)* there is need for a better study of the Yugoslav market for both the traditional and non-traditional goods of Indian origin; *(ii)* the list of items available for exports from India needs to be enlarged to include engineering goods for which there is a good scope in the Yugoslav market; *(iii)* the tariff concessions which are available under the tripartite trade and collaboration agreement between India, the UAR and Yugoslavia, on 557 items, ought to be made applicable to several other items also, including plywood and veneers, sanitary-wares, rubber and canvas, footwear, flat glass, vacuum flasks and rubber chemicals; *(iv)* the importance of holding in Yugoslavia consignment stocks of our engineering goods to ensure prompt delivery to the importers in that country should be better realised; *(v)* the Government of India should also consider the question of sharing the expenses incurred by Indian exporters on building warehousing facilities in Yugoslavia; *(vi)* the opening of an exclusive department store in Yugoslavia for the sale of Indian goods ought also be considered; *(vii)* as the dinar is becoming a hard currency, the complaint of the Yugoslav importers that we are charging higher prices for our steel exports to Yugoslavia, as compared to the exports to the free currency area, should be looked into; *(vii)* there should be more exchange of goos ond value basis—the manufacture of selected items should be taken up in the two countries on complementary basis.

The delegation has also expressed itself in favour of encouraging exports to third countries. It lays great emphasis on improving publicity of our goods in Yugoslavia and greater participation in Yugoslav trade fairs. The delegation further suggests that the means of air travel and communications between India and Yugoslavia should be made much faster than they are at present.

The important measures suggested by the delegation for the consideration of the Yugoslav government are: *(i)* in view of the changing pattern of India's imports, the list of goods available for export from Yusgoslavia may be widened; *(ii)* the Yugoslav exporters to India should be accorded the facility of retaining some of their foreign exchange earnings as is being allowed in the case of exporters to other countries; *(iii)* the list of goods prepared by Yugoslavia for exclusive imports from developing countries ought to be made more comprehensive—it should include such new items as pipes and tubes, steel wire ropes, small and hand tools, compressors, machine tools, pumps, excavators and other earth moving equipment, auto parts and ancillaries, petrol station equipment, fluorescent tubes and fittings, paints and varnishes, plywood and veneers, woven fabrics of synthetic fibres, etc.; *(iv)* the Yugoslav importers should be given the shipping freight subsidy on Indian goods even though these goods are carried in ships other than those registered in that country (this is considered essential because space on Yugoslav ships is not sometimes available); *(v)* import licences should be issued to Yugoslav importers promptly, especially for those items which are included in the trade agreement; *(vi)* the credit regulations ought to be suitably amended—at present the Yugoslav banks give seven months' credit to finance imports from India, the credit is for 70 per cent value of goods to be imported; the advantage of this credit is nullified because of the long time taken for getting goods from Indian exporters to Yugoslavia.

The delegation has suggested that the Yugoslav government may also accept part tenders from Indian suppliers of equipment and machinery for projects. Although the Indian suppliers, it says, are not in a position to bid for complete projects, they can do so for several types of equipment.

INDO-U.S. TRADE

Ways and means to improve bilateral trade between this country and the US were proposed to be discussed in Washington between a high-level Indian delegation consisting of Foreign Trade Minister Mr B.R. Bhagat and Secretary Mr K.B. Lall and the US Secretary of Commerce Mr Maurice Stans. Mr Bhagat has proposed to seek a substantial increase in US imports from this country. This can be achieved through the adoption of a generalised scheme of preferences by the US, it is felt. There is considerable scope for stepping up exports of labour-intensive industrial products to the US markets. Besides, giving a fillip to India's industrial production, such exports would lend mutuality to its trade with the US. Mr Bhagat left for the US on January, 20. The delegation also proposes to visit New York, Chicago and other commercial centres to hold discussions with business leaders and trade associations on problems relating to Indo-US trade.

ASSISTANCE FROM NETHERLAND

An agreement between the union government and the Netherland's government for general purpose loan of forty million guilders

equivalent to 11·2 million dollars for this country's development plans was signed on January 9, 1970, at The Hague. The loan is payable in thirty years with eight years' grace period and 2½ per cent interest.

LEIPZIG SPRING FAIR

The Leipzig Spring Fair will be held from March 1 to March 10, 1970, in this ancient town in the German Democratic Republic. More than 10,000 exhibitors from 65 countries will show their latest developments on a total exhibition space of 350,000 sq. metres. Like every year, the Leipzig Spring Fair in 1970 will be again a highlight in the international economic life. Approximately 600,000 businessmen, scientists and technical experts from about 80 states are expected to pay visit, according to the information available with the management of the Leipzig Spring Fair authorities. The Leipzig Spring Fair will also reflect the economic growth of the German Democratic Republic during the 20 years of her existence. The export industry of the German Democratic Republic will be represented by 4,300 enterprises showing their developments in different fields.

At this Fair, this country will be one of the biggest exhibitors among the overseas countries. According to the latest information 190 exhibitors from various trade groups will exhibit their goods in Leipzig, and have booked 1052 sq. metres of the exhibition space. One part of this space will be on the collective pavilion and the other part in different commodity houses.

JUTE EXPORTS

Mr E. I. Brown, Secretary, Indian Jute Mills Association, stated recently that without government assistance it would not be possible for the Indian jute industry either to be competitive with Pakistan and synthetics or to maintain its position in the jute world. He was addressing a meeting of the export promotion councils and commodity boards with the Federation of Indian Export Organisations. Referring to recent trends and the outlook for export for the next two or three years, he added that sacking was now a lost cause and that the industry had also begun to feel the impact of competition in hessian and carpet backing. During the last 15 years sacking exports had fallen by approximately 400,000 tonnes while hessian exports during the last five years had fallen by 50 per cent from 490,000 tonnes to 250,000 tonnes. Although, over the last 10 years, carpet backing exports had shown a dramatic increase, the year 1969, during which 220,000 tonnes were shipped overseas, recorded a fall in the growth rate. Mr Brown pointed out that shortages and high prices of jute goods during 1969 had helped to push buyers over to synthetics.

TOBACCO EXPORTS

A centrally sponsored scheme for the development of Virginia flue-cured tobacco in the chief tobacco growing states of Andhra Pradesh, Mysore, Gujarat and Tamil Nadu has been taken up by the union government. The scheme has also been extended to the states of Maharashtra, Bihar and Orissa where exploratory trials for finding out the possibilities of developing the cultivation of this variety on a commercial scale are being explored. The union government has sanctioned an amount of Rs 24.62 lakhs to these states for the implementation of the scheme during the current year. In spite of unfavourable weather conditions, particularly in Andhra Pradesh, the scheme has made good progress. Against a target of 19,350 acres for this year, an area of more than 22,000 acres has been brought under cultivation. In all the states, except in Gujarat, the achievement has exceeded the target. There has been a slight shortfall in Gujarat mainly due to insufficient rainfall during the season. In Andhra Pradesh the scheme had to tide over extremely unfavourable weather conditions due to heavy rains and prevalence of cyclonic conditions. The quality of tobacco produced in Mysore has been of very high standard and a programme for exporting tobacco produced in the new areas has been taken up.

ALUMINIUM EXPORTS

Union Minister of State for Mines, Metals, Petroleum and Chemicals, Mr Jagannath Rao, stated in Bhubaneswar recently that this country would be in a position to export aluminium in two or three years. Mr Rao added that this country was already self-sufficient in aluminium production and it would take another two or three years to export aluminium sheets and finished goods. Mr Rao stated that a number of countries were interested in purchasing aluminium from this country. These countries included Iran, the United Arab Republic and east European countries.

DRUGS FOR U.K.

A four-member delegation, which visited the UK recently has succeeded in securing orders for such new drugs as paracetamil and salicyclic acid. Negotiations are under way of exporting vitaim B-12. These three new items alone are expected to a fetch foreign exchange worth Rs 10 lakhs. Exports of pharmaceutical chemicals from the country to the UK amounted to over Rs 50 lakhs in 1968-69. This consisted of traditional items such as products of castor oil, corti-costeroids and other synthetic chemicals. The delegation has now identified that 35 new products can be included in the list of exportable items to the UK. According to Mr Dinesh Zaveri, chairman, drugs and pharmaceuticals panel of the Export Promotion Council, this country can easily step up its exports to the UK by another crore of rupees if prices are competitive and deliveries are prompt. The Indian goods are stated to compare well in quality. The optimism about increasing exports stems from the fact that UK's imports of such products are about Rs 50 crores a year. Moreover, this country enjoys a preferential duty of 10 per cent.

WAGONS FOR HUNGARY

This country and Hungary have agreed to raise the level of their trade exchange in the current year substantially by introducing new items in the protocol signed recently. Besides traditional items, the country will export to Hungary railway wagons, asbestos concrete products, wire ropes, automobile ancillaries, steel tubes and fittings, textile machinery, machine tools and cotton textiles. India's principal imports during the year will be steel and steel products, tractors, axle and wheels for railways, air brakes and accessories, dumpers, chemicals, drugs and pharmaceuticals and printing machinery. It is estimated that trade in the current year will rise to a level of Rs 59 crores as compared to the level of Rs 30 to 35 crores anticipated for 1969. Hungary imported 500 railway wagons in the past years and a new contract for supply of another 1,000 wagons was concluded by the STC recently.

RAW COTTON PRICES

While the export performance of cotton textiles in 1969, was creditable, the recent rise in cotton prices has created grave misgivings, not only about 1970 exports, but also about the running of the cotton textile industry, stated the Chairman of the Federation of Indian Chambers of Commerce & Industry, recently. The cotton season 1969-70 started with bright hopes of a bumper crop and availability of cotton at reasonable prices. But as time went by, the prices started spiralling for various reasons, one of which is said to be a downward adjustment in the crop estimate. Other reasons mentioned in this context are the permission given to the government managed mills to hold stocks of five months, and the capacity of the marketing cooperatives, in the absence of any credit restriction on them, to buy at any price and to hold on to their stocks. The chairman, therefore stated that if the industry's health is not to suffer a relapse and if it is to resume its onward march on the export front, the government should take urgent action to bridge the gap between the supply and demand by adequate additional imports of cotton and staple fibre and impose credit restrictions on marketing co-operatives.

INDUSTRIAL COSTS AND PRICES

The union government has decided to constitute a Bureau of Industrial Costs and Prices in the Department of Industrial Development. The bureau, which will be a high-power body, will tender advice on various issues pertaining to cost reduction and improvement of industrial efficiency and the pricing problem in relation to industrial costs. The constitution of the bureau follows a recommendation made by the Administrative Reforms Commission concerning the setting up of a body to provide advice to the government on a continuing basis on industrial costs and prices. The bureau will undertake cost studies pertaining to industries referred to it by government. It may also take up cost studies for other industries where it feels such investigation to be desirable. To obtain maximum results at minimum costs the bureau will have discretion to seek the assistance of consultants in its deliberations. It will also maintain close touch with other agencies dealing with matters that have a bearing on industrial prices and costs. Its reports will be confidential and will be submitted to government as and when necessary. They will relate to industries or groups of industries referred to it or even to any particular aspect of cost reduction pertaining to any industry which it may deem fit to study.

FOOD DECONTROL IN TAMIL NADU

The Tamil Nadu government has abolished the statutory rationing in Madras and Coimbatore and has removed all restrictions on movement of foodgrains within the state, except in regard to Thanjavur district. The civil supplies checkposts in the state will also go except around Thanjavur district and in the border areas of the state. The one-rupee a measure rice scheme operating in Madras, its belt areas and Coimbatore will, however, continue, but it will be applicable now onwards only to families with monthly income below Rs 200.. The decision was taken on January 8, but the card-holders could draw their ration quota of rice till January, 31. The Chief Minister of the state indicated that the procurement programme would continue for building up buffer stocks and to enable the government to meet its commitments under the cheaper rice scheme.

AUTOMOBILE TYRES AND TUBES

The union government had under consideration for some time the question of creating additional capacity for the manufacture of automobile tyres and tubes. It has now been decided that it would be necessary to license additional capacity of the order of 1·5 million numbers each in the first instance so as to cater to part of the demand that is likely to develop by 1973-74. With a view to introducing more competitive production in this industry, the government has decided to encourage new entrepreneurs specially for the installation of this extra capacity. Applications in the prescribed form from entrepreneurs intending to enter into the field of manufacture of automobile tyres and tubes are invited so as to reach the Ministry of Industrial Development by February 28, 1970.

Company Affairs

CENTRAL BANK

ADDRESSING a press conference a few days ago on the occasion of the opening of a staff training college of the bank in the capital, the custodian of the Central Bank of India, Mr V.C. Patel, said that realising its responsibilities to the problem of unemployment, the bank had put into operation a self-employment scheme under which financial assistance is made available to technical personnel, retail traders and persons who have business acumen or experience or have viable projects.

The deposits of the bank, Mr Patel revealed, aggregated Rs 500 crores as on December 31, 1969, subject to audit. The advances stood at Rs 340 crores The increase in the deposits of the bank in 1969 was nearly 15·7 per cent, as against 14·4 per cent for banking system as a whole. The improvement in loans and advances was 18·6 per cent, as against 15·7 per cent. In terms of quantum, the increase in deposits in 1969 at over Rs 68 crores was the highest for any year in the 50-year history of the bank.

The Central Bank, Mr Patel further revealed, opened as many as 169 branches in 1969- the highest number of branches opened by any bank in this year, except the State Bank of India. This raised the total number of branches of the bank to 673. Another nearly 150 branches are expected to be opened by the bank by June this year.

Mr Patel claimed that even before the National Credit Council had fixed individual targets for banks for extending loans to small-scale industries, the Central Bank had sanctioned limits amounting to Rs 48 crores as on June 30 last year, comprising 3,450 units. The bank was able to complete and even rupees comfortably the target of six crores of rupees fixed for it in 1968-69, by covering 710 units and sanctioning them over Rs 14 crores additional facilities. The highest target of eight crores of rupees additional credit fixed for 1969-70, Mr Patel felt, would also be accomplished.

In respect of credit for agriculture, the performance of the Central Bank, Mr Patel said, was extremely impressive. On October 31, 1969, the bank had 17,100 accounts with the aggregate limit of Rs 36·42 crores and availment of Rs 30 39 crores. The total agricultural schemes approved by the bank by November 1969, were for more than Rs 55 crores credit.

The Central Bank, Mr Patel recalled, had received the export performance award for 1968-69 It had that year a total turnover in export credit amounting to over Rs 149 crores. Of this, traditional exports accounted for Rs 115 crores and non-traditionl exports for Rs 34 crores.

Talking about the staff training centres, Mr Patel said that 30 such centres had already been opened by the bank. They imparted training to newly recruited clerks. The small banks in the country which did not have their own training facilities, Mr Patel added, had been approached to send their staff for training at the Central Bank's training centres.

IMPERIAL TOBACCO

The Imperial Tobacco Co. of India enters the capital market with an issue of 3·79 million equity shares of Rs 10 each at a premium of Rs 3 per share. Out of this, 500,000 shares are being issued as rights shares to the existing shareholders in the ratio of one share for every two held and the remaining 3·29 million shares are offered to the public. The subscription list will open on January 27 and close on February 5, but not before January 29. The entire amount of Rs 13 per share is payable on application. The entire issue has been underwritten. The proceeds of the present issue will enable the company to embark on an extensive plant and machinery modernisation programme at an estimated cost of Rs 4 crores. This is expected to improve productivity and meet the increasing demand for cigarettes in this country. The balance of the amount being raised, together with bank and other borrowing facilities, will provide additional working capital to meet the higher costs of stocks of leaf tobacco, wrapping and other materials and manufactured goods. According to Mr A. N. Haksar, chairman of the company, the turnover in the first six months of the current year has amounted to Rs 69.24 crores and profit before taxation to Rs 3.74 crores. The turnover is expected to exceed the level of Rs 140 crores and profit before taxation to about Rs 7 crores for the year ending March 31, 1970. The company paid a dividend of 13 per cent for the year 1968-69 and an interim dividend of 6½ per cent for the current year. The directors hope to recommend a final dividend of not less than 6½ per cent in August 1970 on the increased share capital. The final dividend will be paid on all shares. Mr Haksar said that after the issue the public in this country will hold over 25 per cent of the equity capital. The directors are confident of the company's progress which will be enhanced by the programme of modernisation.

ANDHRA PRADESH PAPER

Andhra Pradesh Paper Mills Ltd in which the West Coast Paper Mills Ltd. (Somani group) has a substantial interest, offered for public subscription 75,000 equity shares of Rs 100 each at par. The subscription list opened on January 21, 1970, to close on January 30 or earlier, but not before January 23. The company was promoted in June 1964 by the West Coast Paper Mills Limited to take over Andhra Paper Mills owned by the Government of Andhra Pradesh which had a 10-tonne-a-day integrated old paper unit with plant and equipment to be erected to raise the capacity to 70 tonnes a day. The Andhra Pradesh government could not proceed with it. Since then the West Coast Paper Mills took over and had been implementing the expansion scheme, while the Andhra Pradesh government retained a minority interest in the capital of the company. The expansion programme is being implemented in two stages. The plant went into commercial production in July 1967. Since July the company has undertaken the second phase of expansion by adding certain balancing equipment. The plant is manufacturing today 70 tonnes a day as against its rated capacity of 30 tonnes a day. It is expected that the plant will produce 50,000 tonnes per annum. The overall cost of expansion is estimated at Rs 14.24 crores. The object of the present issue is to meet part of the finance for the expansion programme. This is being met through Rs 4 crores already issued, Rs 75 lakhs from the proposed issue, Rs 6.47 crores through term loans, Rs 1.99 crores on a deferred payment, Rs 20.50 lakhs through insurance claims and Rs 85 lakhs on miscellaneous account.

NAGPAL REFINERY

Nagpal Petro-Chem Refining Ltd, proposes to enter the capital market shortly with a public issue of Rs 1·73 crores comprising 1,230,000 equity shares of Rs 10 each (Rs 123 lakhs) and 50,000 (9·5 per cent) cumulative redeemable preference shares of Rs 100 each (Rs 50 lakhs) at par. A sum of Rs 5 per equity share and Rs 50 per preference share is payable on application. Incorporated in May 1967 and converted into a public limited company in January 1969 the company has plans to set up a plant near Madras for the manufacture of transformer and other speciality oils. The company's name is proposed to be changed later to Nagpal Ambadi Petro-Chem Refining Ltd. This is expected to take effect some time after the subscription lists have been closed. The company holds a licence for manufacturing annually 15,000 tonnes of transformer oil, 8,000 tonnes of agricultural spray oils, white mineral oils, petroleum and petroleum sulfonates and concentrates and 16,500 tonnes of oleum for captive use. It has entered into two technical collaboration agreements with Witco Chemical Corporation, USA, for the use of the process know-how and complete plant design. These agreements have been approved by the union government. The company's authorised capital is Rs 7 crores (Rs 6 crores in equity share and Rs 1 crore in preference shares). The issued, subscribed and paid-up capital is Rs 77 lakhs in equity shares.

SOMANY-PILKINGTONS

Somany-Pilkingtons Ltd will enter the capital market with a public issue of 108,800 equity shares of Rs 10 each and 10,000 (9.5 per cent) cumulative redeemable preference shares of Rs 100 each. The subscription list will open on January 27 and close on February 5. A sum of Rs 5 per equity share is payable on application. The entire public issue has been underwritten. The company is issuing equity capital of Rs 15.68 lakhs and the preference capital of Rs 10 lakhs. Of this, equity shares of the value of Rs 4.8 lakhs are reserved for the company's collaborators, Pilkingtons Tiles Ltd, UK, for payment against the supply of plant and equipment. The proceeds of the issue will be utilised to meet a part of the finance for setting up a plant to produce glazed tiles. The plant is expected to commence production by the middle of 1971. The necessary raw materials are locally available.

TIME INDUSTRIES

Time Industries India Ltd will enter the capital market with an issue of Rs 13.50 lakhs. The subscription list will open on January 22 and close on February 3, 1970, or earlier at the discretion of the directors but not before January 27, 1970. The company has an authorised capital of Rs 25 lakhs and issued and subscribed capital of Rs 7.50 lakhs. The company proposes to set up a factory near Ahmedabad to manufacture 120,000 alarum timepieces every year for which machinery has already been ordered from Switzerland, West Germany and the UK. The company has entered into an agreement with Gujarat Industrial Development Corporation (GIDC) for a piece of land which is adequate to meet present requirements as well as for future expansion. The construction of the factory building is expected to be completed in a few months. The Ahmedabad Electricity Co. Ltd. has consented to supply power. The water requirement is not considerable and the supply arrangements made by the GIDC would be adequate. The company has entered into an agreement with the world famous manufacturers of clocks, timepieces and watches

in West Germany viz. M/s Gebruder Junghans GmbH, Schramberg, for obtaining technical know-how, drawings, manufacturing licence,etc.

AUTOMOBILE PRODUCTS

The directors of Automobile Products of India propose to make a rights issue of 213,742 equity shares of Rs 10 each for cash at par in the proportion of one new equity share for every four existing shares or fractions thereof. The consent of the Controller of Capital Issues is awaited. After the merger of Hind Auto Industries Ltd (HAIL), the company's profits have risen to Rs 17·58 lakhs. Sales are 30 per cent higher at Rs 10·25 crores during the year ended July 31, 1969, including Rs 50.87 lakhs representing the turnover of the Lucknow division (HAIL) for the 16 months ending July 31, 1969. However, according to directors, the profit margin has declined considerably owing to a persistent increase in the cost of materials and manpower. Consequent on the merger, the range of the company's products in the ancillary division has widened. Though the manufacturing unit at Lucknow is kept as a separate entity, the marketing operations of the company's products in the ancillary division are being gradually integrated. HAIL stood dissolved as at March 24, 1969, and its assets became vested with the company effective from April 1, 1969, as per the scheme of amalgamation. The Controller of Capital Issues has permitted the issue of equity and fourth preference shares to the shareholders of HAIL as provided in the scheme.

TRICHY STEEL

Trichy Steel Rolling Mills Ltd has made a net profit of Rs 3.03 lakhs against Rs 36,730 for the year ended September 30, 1969. The company has made provision for depreciation of Rs 2.60 lakhs. Sales were placed at Rs 1.27 crores. The production was recorded at 10,850 tonnes against 16,952 tonnes owing to the shortage of billets. The directors have reported that the shortage of billets may continue. The company has been able to earn more despite these handicaps. Exports have declined to Rs 9.39 lakhs mainly due to the raw material shortage.

HINDUSTAN BROWN BOVERI

Hindustan Brown Boveri Ltd has won an order worth over Rs 9 lakhs from the New Zealand electricity department for the export of extra high voltage 220 KV airblast circuit breakers. It has also secured an order from Iran for the supply of ACSR conductors worth about Rs 80 lakhs. In 1968 the company secured an order for the same material of the value of Rs 11 lakhs from Kuwait. Mr E. Schickel, managing director, stated recently that the company's export order book was good and it could reach a figure of Rs 80 lakhs in 1970-71 if raw materials were promptly available. The company's export of motors to south-east Asian markets are also steadily increasing in the last eight months. The working in the first six months of the current year has been maintained at the level of the corresponding period of the previous year.

INDO-BURMA PETROLEUM

The board of Indo-Burma Petroleum Co. will be reconstituted as a sequel to the Indian Oil Corporation acquiring the majority shareholding in the company from Steel Brothers and Co. of the UK. Mr Kamaljit Singh, Managing Director of the Marketing Division of the Indian Oil Corporation, will be the company's chairman and Mr S. B. Budhiraja will be Managing Director and Mr V. Balkrishnan as Director.

RUBY MILLS

The directors of Ruby Mills Ltd have proposed a bonus issue of equity shares in the ratio of one share of Rs 25 for every three shares held. The issue will be effected by capitalising a sum of Rs 8 lakhs out of the company's reserves. It will raise the equity capital of the company from Rs 24 lakhs to Rs 32 lakhs. The working of the company for the current year is stated to be satisfactory.

POLYOLEFINS

Polyolefins Industries Ltd which commenced production of plastic raw materials 15 months ago, has already earned an equivalent of more than Rs 3 crores through export of this non-traditional item. The company started exporting its high density polyethylene granules almost immediately after production started. Within first 3 months exports aggregated 2,800 tonnes and the f o.b. value was Rs 60 lakhs. At the end of 1969, the company exported 10,500 tonnes or about 60 per cent of the year's total production to 15 countries including West Germany, a pioneer among the plastic manufacturing countries.

ANDHRA SUGARS' BONUS

The directors of Andhra Sugars have proposed to issue bonus shares in the ratio of four new shares for every five shares held. For this the company will issue 720,000 equity shares of Rs 10 each. The bonus issue is subject to the sanction of the Controller of Capital Issues and the IFC. The directors have also proposed to maintain the equity dividend at 12 per cent for the year ended September 30, 1969, subject to IFC's sanction.

CALCUTTA ELECTRIC SUPPLY

The management and control of the Calcutta Electric Supply Corporation which was hitherto carried out from the UK has been transferred to this country with effect from January 5, 1970. Mr D.P.M. Kanga, the companys Agent has now joined the board of directors and has been appointed the first managing director of the company. From the same date the office of the agent has ceased to operate. Mr C. A. Gunther the company's chief engineer, has also joined the board while Mr Harold Hobson and Mr A. R. Colley have retired.

TRANS WORLD AIRLINES

Total traffic of TWA for 1969 increased by 15.2 per cent over that of 1968. Total revenue passenger miles in 1969 were reported on a preliminary basis to be 17,541.74 million. This compares well with 15,220.80 million in 1968. The airlines also stated that its total capacity measured in available seat miles was up 15.5 per cent for the year. The TWA offered 35,420.37 million in 1969 compared to 30,656 15 million seat miles in 1968. Total cargo carried for the year increased to 16.4 per cent over 1968, going up from 358,445,000 revenue ton miles in 1968 to 417,080,000 on a preliminary count in 1969.

AMERICAN EXPRESS

American Express Company celebrated its 101st consecutive years of dividends with the quarterly payment of 25 cents to holders of its common shares, Howard L. Clark, chairman and chief executive officer announced recently. Mr Clark also pointed out that this year American Express celebrates its 120th anniversary. American Express was organized to provide an express shipping service from New York westward through Buffalo. Today the company and its subsidiaries have assets of four billion dollars with almost 1,000 offices and representative offices throughout the world.

UNIT PRICES

The Unit Trust of India has raised the sale and repurchase prices of its units by 5 paise each with effect from January 12 to Rs 10.80 and Rs 10.40 per unit, respectively.

CAPITAL AND BONUS ISSUES

Consent has been accorded to thirteen companies to issue bonus shares amounting to over Rs 1·69 crores. The amount of bonus shares ranges between Rs 63,240 and Rs 40,00,000. The consents are valid for 12 months. The following are the details :

Central Automobiles Private Ltd, Bombay, has been accorded consent to capitalise Rs 1,50,000 out of its general reserve and issue fully paid equity shares of Rs 100 each as bonus shares in the ratio of three bonus shares for every ten equity shares held.

The Bombay Burma Trading Corporation Ltd, Bombay, has been accorded consent to capitalise Rs 33,43,750 out of its free reserves and issue fully paid equity shares of Rs 25 each as bonus shares in the ratio of one bonus share for every ten equity shares held.

The West Coast Paper Mills Ltd, Bombay, has been accorded consent to capitalise Rs 40,00,000 out of its general reserves and issue fully paid equity shares of Rs 100 each as bonus shares in the ratio of one bonus share for every five equity shares held.

Ahura Chemical Products Private Ltd, Bombay, has been accorded consent to capitalise Rs 17,50,000 out of its general reserves and issue fully paid equity shares of Rs 100 each as bonus shares in the ratio of one bonus share for every one equity share held.

Garware Filament Corporation Private Ltd, Bombay, has been accorded consent to capitalise Rs 4,00,000 out of its general reserves and issue fully paid equity shares of Rs 10 each as bonus shares in the ratio of four bonus shares for every five equity shares held.

Pidilite Industries Private Ltd, Bombay, has been accorded consent to capitalise Rs 2,00,000 out of its general reserves and issue fully paid equity shares of Rs 100 each as bonus shares in the ratio of one bonus share for every three equity shares held.

Essorpe Mills (Private) Ltd, Coimbatore, has been accorded consent to capitalise Rs 5,00,000 out of its general reserves and issue fully paid equity shares of Rs 1,000 each as bonus shares in the ratio of one bonus share for every equity share held.

Attikhan (Biligiri) Ltd, Madras, has been accorded consent to capitalise Rs 1,60,000 out of its free reserves and issue fully paid equity shares of Rs 2 each as bonus shares in the ratio of one bonus share for every four equity shares held.

The Indian Hotels Company Ltd, Bombay, has been accorded consent to capitalise Rs 15,00,000 out of its general reserves and issue fully paid equity shares of Rs 500 each as bonus shares in the ratio of three bonus shares for every ten equity shares held.

Garware Nylons Private Ltd, Bombay, has been accorded consent to capitalise Rs 16,12,500 out of its general reserves and issue fully paid equity shares of Rs 10 each as bonus shares in the ratio of three bonus shares for every ten equity shares held

The Bassein Electric Supply Company Ltd, Bombay, has been accorded consent to capitalise Rs 63,240 out of its general reserves and issue fully paid equity shares of Rs 10 each as bonus shares in the ratio of one bonus share for every two equity shares held.

German Remedies Private Ltd, Bombay, has been accorded consent to capitalise Rs 8,55,000 out of its general reserves and issue 8550 fully paid equity shares of Rs 100 each as bonus shares in the ratio of three bonus shares for every ten equity shares held.

J.K. Chemicals Ltd, Bombay, has been accorded consent to capitalise Rs 24,08,800 out of its general reserves and issue fully paid equity shares of Rs 100 each as bonus shares in the ratio of two bonus shares for every three equity shares held.

WHAT DOES THE CONSTITUTION HAVE TO SAY?

COMPANY MEETINGS

SUDARSAN TRADING COMPANY LIMITED

Registered Office : CALICUT-2

TENTH ANNUAL GENERAL MEETING

Speech delivered by Sri S. Chinnakaruppa Thevar, Chairman of the Tenth Annual General Body Meeting of the Company held at the Conference Hall, Beach Hotel, Beach Road, Calicut, on 23rd January, 1970 at 4 P. M.

Dear Members of the Company:

It gives me great pleasure to welcome you to the Tenth Annual General Meeting of your Compnay and present you the Balance Sheet and Annual Accounts together with the Directors' Report for the year ending 31st July, 1969. These have been in your hands for some time now, and with your permission, I shall take them as read.

As you are well aware the year 1968-1969 has been again one of difficulties, anxieties and un-certainties. The general economic situation in the country has further deteriorated and there is a feeling that apart from feeding the hungry with slogans, no concrete effort has been made for the economic emancipation of the poorer sections of our people. Whether or not the rich have grown richer, the poor certainly have become poorer with unchecked increase in price and the unabated growth in the unemployment problem among both the educated and uneducated

Several nationalisation programmes are being talked about. All the major Indian Banks have been nationalised. While the Country is awaiting the result of this venture, the much sympathised common man continues to face economic strangulation caused by rising prices of daily necessities and steady increase in governmental levies of all descriptions. The political situation in the Country has also caused great uncertainty in the minds of the public. While professing to eliminate the disparity between the 'haves' and the 'have-nots', political leadership has not yet done anything to raise the standard of living of the common man by increasing his purchasing power or improving his prospects of employment.

What is called for is not merely a quantitative change as hitherto aimed by our Planners, but a revolutionary approach to provide jobs for those who are willing to work. If the 'idle hours' of our young people are converted into 'working hours', they would atonce become an asset to the country and to their families.

Instead of putting hurdles, the Government should give all encouragement to those who have a natural inclination to build up industries and thereby increase the number of jobs available as well as add to the wealth of the Country. Even a tax incentive may be given to those who open new avenues of employment. This hunt for jobs for our young people should be put on a war basis with all the attention focussed on it. Such a bold policy will give new direction and determination to the country's economic growth. Besides passing resolutions to usher in a socialistic society, there is at present real need for a national approach and concerted action to improve the lot of the common man. Shedding crocodile tears for the unfortunate masses serves no purpose. Bold action to raise industries and tone-up commerce and daring policies to cut down prices and taxes alone will afford relief to them.

Let me now report to you of the efforts of your Company which will, undoubtedly be of interest to you.

Chit Funds

As can be seen from the Balance Sheet and Report, the Chit Fund Business of the Company has been improving steadily. There has been an overall increase of business of 22% in this field and the turnover of Rs 17.95 Crores achieved this year is an all time record.

The Chit Fund Unit has opened 11 more Offices this year bringing the total to 65.

While on this subject, I would like to reiterate the need for an All-India Legislation to regulate the Chit Fund business. The increase in the business of our Company as well as the reception it has received wherever new Offices were opened are proof enough of the confidence the public have not only in our Company, but also in the system of Chit Funds.

I must, however, point out that the encouragement we have been receiving has also opened the eyes of many people to start Chit Funds, not always with the steadfast commitment business of this nature requires. This naturally has led to considerable speculative activities by several Chit Fund promoters; consequently the image of the Chit Funds has been tarnished. Unless speedy legislation is introduced to regulate this business, the reputation of Chit Funds in general would suffer in the long run. Public too will be put into difficulties and hardships which are otherwise avoidable. A few of the State Governments have enacted legislation on the subject, but implementation has been far from satisfactory. This creates difficulties for steadily-growing and law-abiding concerns like ours, but leaves undesirable loop-holes for others. It is hoped that the immediate requirement for comprehensive legislation to regulate the Chit Fund business will not be delayed any longer.

Feroke Tile Works

It is with great regret, I have to report to you, the closure of the Feroke Tile Works from the 21st May 1969. This drastic step became inevitable when the situation could not be improved to increase production and make the unit a profitable one. Members would agree that the Company cannot afford to run a unit which suffers loss year after year. The working of this unit resulted in severe loss to the company as could be seen from the accounts in your hands. Loss begets only further loss. Therefore, it became imperative to close down and sell or lease or otherwise dispose of the same. The liabilities to the workers have been discharged and efforts are being made to lease or otherwise dispose of the works on the best possible terms.

Expansion of Company's Activities

Your Company has been endeavouring to expand its activities and for this, a diversified investment policy is required. It will be appreciated by members that in a regulated economy like ours, it is essential to keep our policies also attuned to the policies and priorities of the Government. With this in view, we have placed before this meeting several special resolutions which will empower your Directors to participate in such profitable and diversified fields like shipping, hoteliering, manufacture of plywood and other profitable ventures. It is the considered view of your Directors, that the proposed diversification will improve the working results in the aggregate of the various Units

and also stabilise the Company to withstand the fluctuating situation in the Country.

Further Issue of Shares

To meet the capital requirements of the various ventures proposed and to strengthen the capital structure of the Company, steps are being taken for a further issue of shares. I am sure members and friends will avail of this opportunity and lend their wholehearted support to the proposed issue.

Employer-Employee Relations

It gives me great pleasure to report once again that the Employer-Employee relations in your Company have been excellent.

The unstinted support and hard work put in by the Executives, Officers, Members of Staff and Agents of the Company deserve special mention and a word of praise from me. I am sure, with their continued support and hard work, your Company will maintain, and improve, its steady record of growth and progress.

Before closing, I wish to record our sincere thanks to the clients and subscribers of the Company as well as the shareholders for the confidence placed in us. I trust we will continue to receive their guidance and help in the future also.

S. CHINNAKARUPPA THEVAR
Chairman

Calicut,
23rd January, 1970

Note : This does not purport to be the proceedings of the Meeting.

THE K. C. P. LIMITED

38, Mount Road, Madras-6.

Chairman's Speech

Speech Delivered by Shri V. M. Rao, Chairman, at the 28th Annual General Meeting held on the 30th December 1969

Shri V. M. Rao

Gentlemen :

I have great pleasure in extending to you a hearty welcome to the 28th Annual General Meeting of your Company. The Directors' Report and Audited Accounts for the year ended 30th June 1969 have been in your hands for some time now and with your permission I shall take them as read.

At the outset, I have to refer with deep sorrow to the sad demise of our respected Senior Director Sri Kaza Umamaheswara Rao. I would request all our friends to please stand and observe one minute's silence in memory of the deceased.

Working results and appropriations

You will have noticed from the Directors' Report that during the year under review, the production, sales and profits were reasonably satisfactory in the context of the difficult conditions which our three main products —Sugar, Cement and Heavy Engineering — have had to face.

Expansion Schemes

You will notice that your Board of Directors are proceeding to diversify in various new lines. It would take some years for these new activities to be able to contribute to the profits of your Company.

Management

After 15 years, your Managing Agents will have to leave on and from 2nd April 1970 due to the new Company Law. Hence your Board has recommended to you an alternate form of Management. It is interesting to review the comparative working results of your Company under your Managing Agents from 1954 to 1969. The Fquity Shareholders' contribution of about Rs. 43 lakhs has been increased by about 450% by the issue of Bonus Shares including the proposed new issue to Rs. 275 lakhs. The gross block of the Company of about Rs. 85 lakhs has increased by about 1,200% to Rs. 1,111 lakhs. The sales of your Company have increased from Rs. 151 lakhs by about 800% to Rs. 1,365 lakhs. The taxes paid by your Company of Rs. 22 lakhs have increased by about 930% to Rs 222 lakhs. The number of employees has increased about three times and their total emoluments have increased by about 900%. The arithmetic average income of an employee has gone up by about three times. I trust that you will agree with me that in your case the Managing Agency System has been of value to you, the employees of your Company and the country as a whole.

Industrial Outlook

Management involves long time planning. In the present atmosphere it is difficult to plan even for a few months. I would like to humbly suggest that the less we talk about sectors and isms, the better off our country will be. Any individual or corporate body who produces efficiently at the lowest cost should be given adequate incentives both fiscal and otherwise. Every educated Indian who is fortunate enough to have a job has to repay his debt to Society by working to the maximum of his ability in order that Society could have more products at a lower cost and that sufficient employment potential can be generated by creating capital which can be re-invested.

OUTLOOK FOR YOUR COMPANY FOR THE COMING YEAR

Sugar

The production of sugar, as you know, has reached an all time high and most of your sugar has to travel North. The recent cyclones which have devastated the Andhra areas have had a deleterious effect on the cane quality and we will not know the full impact of these till the end of the season.

Cement

I am glad that the Government has reconsidered its decision to de-control cement from 1st January, 1970. As far as your Company is concerned, marketing has always been its biggest problem due to the locational disadvantages of your factory.

Heavy Engineering

Though the production has improved compared to last year due to improved management techniques and the order book is fairly satisfactory, the enormous increase in steel prices and other components as compared with the price levels at which we had to accept orders due to intense competition have tended to wipe out the slender margins of profit.

To maintain the profitability of our Company in the coming year will require intense efforts on the part of your management and employees.

I have to conclude with expressing my sincere thanks to all our employees, all our various collaborators, customers and financial institutions for the help we have received from them in the last year.

(This does not purport to be the Proceedings of the Twenty-eighth Annual General Meeting of the Company.)

RECORDS AND STATISTICS

ATOMIC ENERGY IN INDIA

THE TARAPUR atomic power station—Asia's largest operating atomic power plant—was inaugurated on January 19, 1970, by the Prime Minister, Mrs Indira Gandhi. This is the first of the three atomic power stations proposed to be set up in our country during the fourth five-year Plan period. In order to understand fully the need for atomic stations in this country due to the deficiency of both thermal and hydro power in certain areas, it is useful to study the analysis of one of our foremost scientists, Dr Vikram A. Sarabhai. He addressed the 12th general conference of the IAEA in Vienna on September 26, 1968, and discussed the problems associated with the use of nuclear power in developing countries. His monograph has been reprinted below in full except for charts. Only four of his charts have been used :—

I wish today to share with you some results of our studies to identify the relevance and scope of nuclear power in India and experience we have acquired in attempting to satisfy the rapidly growing demand for nuclear power. Developing nations have, of course, many things in common—most importantly the poverty of their people and the problems of survival. However, there are no general solutions, and as we shall see from analysis of the situation in two particular areas in India, there is need to imaginatively apply technology in an existing social and economic base. It is in performing this last exercise that it becomes almost essential for nationals of each developing country to make detailed studies of their own conditions and determine the commitments required and the price to be paid.

What I am going to talk about today is with two objectives in mind. I wish firstly to illustrate the methodology of quantitative analysis which is required and secondly, to describe the results which indeed indicate that potential benefits of low cost energy sources now available through nuclear power are capable of inducing a major transformation in a large community. There are inevitably a number of assumptions involved in extrapolating to the future, but even with preliminary studies made quantitatively, we observe the basis for meaningful decision making. Commitment to schemes of the magnitude described here would undoubtedly need verification of some of the assumptions and experience of management systems, which could be effective in providing end results. In Appendix 'A' are described some steps preliminary to the setting up of agro-industrial complexes, around nuclear energy producing centres.

There are four major regional grids in India each with an installed capacity of about 3000 MWe and a maximum demand which is about two-thirds of the installed capacity. The doubling time of consumption is about five years which means that currently about 400 to 500 MWe additional generating capacity is required annually in each grid. [1,2]

Fig 1 shows the manner in which the installed capacity of hydroelectric, thermal and nuclear power generation has grown in the past and is expected to grow during the next 12 years. [3,4] Hydel power has played a significant role (30 to 50 per cent of the total) and will continue to do so in the future. It has, however, some rather special characteristics which derive from the seasonal character of rainfall during the Indian monsoon. Whether it is from direct rainfall or from the melting snows in the Himalayas, the water in our hydel reservoirs gets replenished largely on a seasonal basis. The average load during the year is in consequence only 30 to 50 per cent of the installed capacity. Moreover the variance of rainfall in different regions in India is generally largest where the annual rainfall itself is not plentiful. In consequence there are many regions where an already marginal economy is thrown seriously out of gear every few years by drought and power cuts.

FIG. I

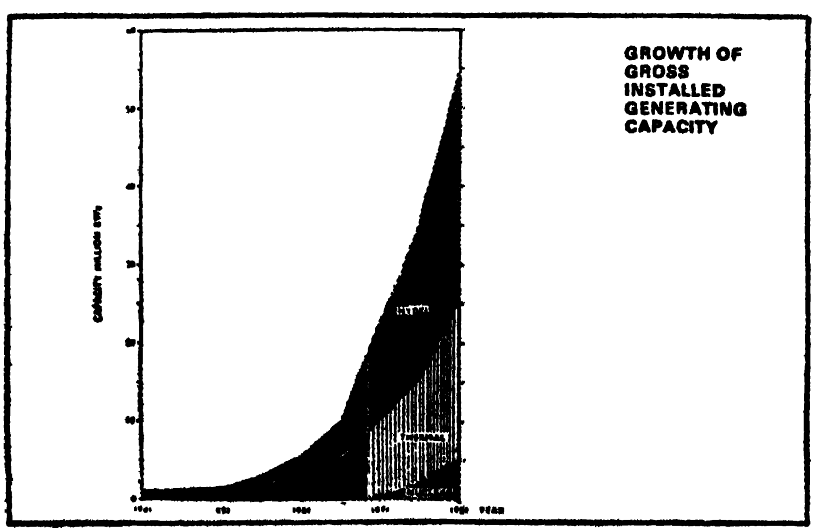


TABLE I

LOSS DUE TO IRREGULAR RAINFALL (KERALA STATE)

Year	Rainfall in cms	No. of days affected by power cut	Average loss of production per year
1961-62..	331·0	62	
1962-63..	312·5	100	
1963-64..	246·5	135	Rs 75 Million
1964-65..	314·6	187	(Dollars 10
1965-66..	220·9	240	Million)

Table 1 indicates the economic implications to the state of Kerala of irregular rainfall during the five year 1961-66. This state has depended mainly on hydro-electric power and it is seen that average loss of production has been about Rs 75 million per annum with as many as 240 days being affected by power cuts in one year.[5] In terms of loss of GNP contribution (value added lost) this would be Rs 72·5 million per annum. It would have been worthwhile to make a sizable investment to ensure reliability of supply of energy in the system during 1961-66. Details are given in Appendix 'B'.

A characteristic feature of the load in our grids is the large range of variations. In the northern grid we have a peak load of 1692 MWe but the minimum load is 862 MWe. For about 50 per cent of the time the load is less than one-third of the installed capacity and even half the installed capacity is not used for more than 14 per cent of the time. This illustrates the vast scope for economy of capital expenditure and of reducing the cost of power through an improvement of the load factor. Where the utilisation of installed capacity is small due to large seasonal changes in the supply of reservoir water, pumped storage based on low cost thermal or atomic power from a base load station can be advantageously used. This involves using electrical energy from the base load station to pump water back into the hydel reservoir to be later used for providing peaking hydro-electric energy when required. Where the unsatisfactory nature of the load factor curve is due to users who do not provide continuous load at all times of the day or in different seasons, the extra power can be costed inexpensively on an incremental basis. We shall examine later the processes which are economically advantageous whenever low cost electrical energy is available and which can therefore be adopted for the dual purpose of

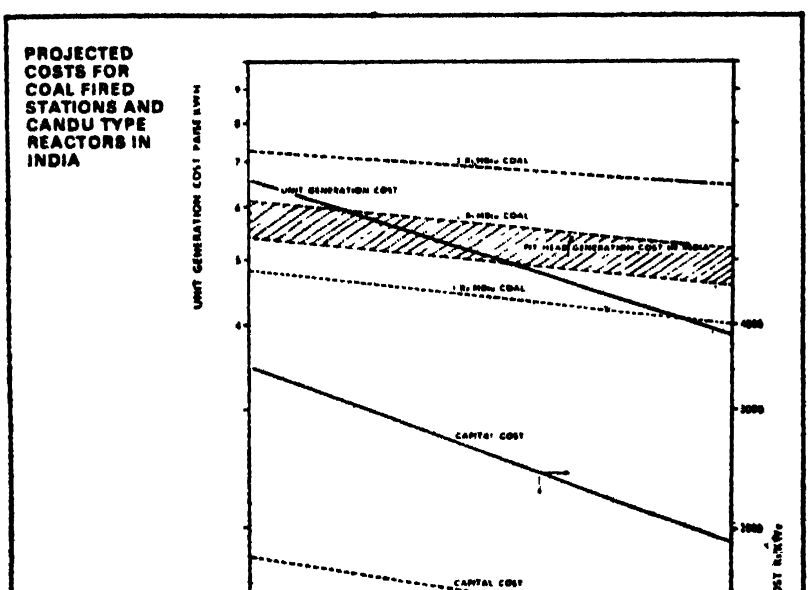
balancing a load and producing needed inputs to the economy.

A factor that continually hampers the progress of a developing region is the small base from which it starts to build its economy. Even with a large rate of growth, the incremental generating capacity required is small and results in the acquisition of single units of small size. In the next three years the largest number of hydel or thermal generating plants to be commissioned in India would be of sizes ranging from 50 to 100 MWe.[1] Indeed only 28 per cent of the new capacity will be with units greater than 100 MWe of which the three nuclear plants that are now being established are the only ones with large single units of 200 MWe each. It is not surprising that with this situation we end up with power costs ranging from 7 to 9 paise per KWH, which is about twice as expensive as what industrially advanced nations use.

The economic implications of this state of affairs are very clearly brought out in Figure 2 where the capital costs and the unit generating costs of coal and nuclear power stations ranging in capacity from 200 to 1000 MWe have been estimated.[4,6,7] The reactor considered is of the heavy water moderated, heavy water cooled type using natural uranium. We have projected cost on the basis of experience under Indian conditions of building Candu reactors. The range of prices of coal at pit-head in India is shown by hatched area. Under our conditions today a 500 MWe Candu reactor is expected to have a unit generating cost fully competitive with a thermal unit of equivalent size erected at the pit-head, providing lowest cost coal. When the price of coal is Re 1 per million BTU, as it is in some other countries, the break-even point in unit generating cost occurs not at 500 MWe size but at about 800 to 900 MWe. It will be noticed that within the range of unit sizes considered, the capital cost of the Candu reactor is from 80 to 40 per cent more than the capital cost of an equivalent thermal power station. The additional capital cost, which includes a heavy water inventory, may make a significant difference to the choice of the reactor in some countries. But balanced against this would be the foreign exchange cost and dependence on external source of fuel if the boiling or pressurised light water reactor of lower capital cost is considered using enriched fuel.

The coal deposits in India are to be found mostly in the eastern region. The contour passing through western Uttar Pradesh, south-east Rajasthan and Gujarat, parts of Maharashtra, Mysore and Tamil Nadu indicates the areas where 200 MWe nuclear stations of the Candu type[7] are more economical than thermal units of equivalent size. The contour takes into account the transportation cost of coal by rail from pit-head to the generating station. Assumptions underlying these calculations are discussed in Appendix 'C' Para (7). It will be observed that the contour clears Tarapur on the west coast, Rana Pratap Sagar in Rajasthan and Kalpakkam on the east coast, where India's first three nuclear power stations with a total capacity of about 1000 MWe are currently under construction.

FIG 2



There is today in India the potential for the further establishment of even 200 MWe nuclear stations in several areas of the country. It may be noted that through fortunate coincidence the doubling time in each of the four regional grids now requires new capacity of 400 to 500 MWe per year[8]. Provided appropriate transmission lines and interconnections between grids are available, 500 MWe nuclear stations can be economically operated in most parts of the country.

Of course, the economic advantage of nuclear power can be realised fully only if one can ensure a guaranteed base load of about 80 to 85 per cent. A number of major electricity consuming outlets such as electro-chemical and electro-thermic processes and pumping of underground water through tube wells[8] have been examined in addition to desalination of water.[9] This is to ascertain whether by a careful choice of energy consuming projects related to a low-cost energy producing centre, one could provide not only fresh inputs for economic development, but a balanced load within the grid systems.[10]

A study team constituted by the Indian Atomic Energy Commission at the end of last year in order to evaluate the impact of relevant technological developments on the pattern of industry and agriculture in India, has recently submitted a preliminary report.[11] It had the benefit of the studies made at Oak Ridge National Laboratory of the US Atomic Energy Commission.[12]

A comparison at the cost of production of nitrogenous fertilisers under Indian conditions by conventional processes against alternative electrolytic and electro-thermic processes reveals that at a power cost of 2·6 p/kwh and with the pit-head price of coal in the range of Rs 35 to 40/Te[11], a fertiliser plant based on coal, located at a distance of up to 800 kms from the pit-head and priced at Rs 58/Te at the plant site, would be more economical than a plant using electrolysis. With the present indigenous prices of LSHS and naphtha at Rs 90/Te and Rs 100/Te respectively, the electrolytic plant will be able to compete only if the cost of electricity is less than 1·5p/kwh. It has been realised that there is a growing worldwide shortage of naphtha. In India the availability of naphtha is dependant on the refining capacity installed for other petroleum products such as gasolene, diesel, etc.; much of the crude required for the purpose being imported. It has been estimated that by 1970-71 there will be a deficit to the extent of 1·577 million tonnes of naphtha per annum (*Appendix* '*E*'). The assumptions underlying the above estimates and some salient findings regarding the relative economics of processes using different feedstocks are given in *Appendix* '*F*'.[11]

Appendix 'G' shows the production record of major fertiliser plants in India for the year 1967-68. It is relevant to point out here that most of the plants based on coal and lignite as raw materials established in India during the early days of planning (later ones have been mostly based on naphtha) are facing severe difficulties and are reported to be operating poorly and inefficiently. Plants based on

LSHS have yet to be established in the country and hence the performance efficiencies can be expected to be only the same as for naphtha based plants. The Nangal Electrolytic Fertiliser Plant based on low cost electricity from the Bhakra Nangal Hydel Projects has the best record for plant utilisation.

A comparison of production of diammonium phosphate and triple super phosphate using the electric furnace against the conventional wet process using sulphuric acid based on a plant capacity of 600 Te/day of P_2O_5 reveals that for a power cost of 2.6 p/kwh the breakeven point for both the above products is at a sulphur price (for the wet process), of approximately Rs 485/Te.[11] Currently, sulphur is entirely imported in India and its present price varies from Rs 450/Te and Rs 500/Te. Due to the uncertainty of supply from abroad, the price of sulphur had fluctuated very much in the past, being sold even at prices in the range of Rs 800/Te. This factor has to be borne in mind while making any comparison of processes using sulphur against alternatives. The process based on electricity is therefore very attractive in our context. The breakeven points at various electricity prices and the important assumptions underlying the above estimates are also given in *Appendix 'F'*.[11]

An alternate product, nitric phosphate, based on nitric acid solubilisation of rock phosphate has also been compared with the above products. Its production is independent of either the cost of electricity or sulphur. The cost of production based on the same plant capacity of 600 Te/day of P_2O_5 if ammonia is bought at Rs 500/Te works out to Rs 950/Te. At the estimated generation cost of electricity at 2.6 p/kwh and the current price of sulphur in India at Rs 500/Te this production cost of nitric phosphate compares favourably with either triple super phosphate or diammonium phosphate based on either electricity or sulphur. The utilisation aspects of nitric phosphate under all soil conditions have to be examined more carefully. It is recognised however that all these products will have their role to play in Indian agriculture and there will be ample demand for all of them in great quantities for years to come.

Aluminium Production

In the production of aluminium with a 50,000 Te/annum plant, the production cost of fabricated aluminium at a power cost of 2.6 p/kwh is approximately Rs 3,400 per tonne. The present ex-factory sale price of fabricated aluminium in India is approximately Rs 5,500/Te. *Appendix* 'F' may be referred to for further details.[11]

The cost of power from a single purpose power plant of 2×600 MWe has been estimated to be 2.60 p/kwh.[4] Important assumptions underlying this estimate are given in *Appendix 'H'* which also explains why this cost varies from the cost of electricity mentioned elsewhere. Assuming a power credit of 2.6 p/kwh, estimates of the cost of water from dual purpose plants producing 100-500 MGD water have been made.

The cost of water from a dual purpose plant 7,13 producing 1200 MWe power and 150 MGD is about Rs 2.68/1000 imperial gallons in our environmental conditions with the long tube vertical evaporation cum multistage flash process (for feed heating) and using double fluted tubes developed in USA. [14] However, to this, the cost of distribution has to be added to arrive at the cost of water delivered to the farmer. Desalinated water being costly, judicious water management system is necessary. Several schemes were considered and it was found that varying the area under cultivation (*i.e.* increasing the farming area to an annex farm during the Kharif season when the water demand is comparatively low), with a constant capacity of water plant is the most efficient water management scheme. On this basis, it is found that the cost of water to the farmer from a 150 MGD plant will be slightly more than Rs 3 per 1000 gallons. Important assumptions underlying the above estimates are given in *Appendix 'J'*.[11]

So far desalted water has not been considered for agriculture mainly due to its high cost. However in order to assess the profitability of using desalted water for agriculture the cost of water and its relation to agricultural income have been studied for a coastal arid region. Unlike water from a conventional source like monsoon, desalted water will be available throughout the year. It is moreover necessary to maintain a high load factor as desalting is a capital-intensive industry. These features of the desalting industry, dictate uniform use of the water through all seasons, which makes multiple cropping important for sound economics.

The influence of the cost of water on certain crop rotations, *viz.* hybrid maize-potato-summer groundnut and hybrid maize-wheat-summer groundnut has been studied for regions such as Gujarat.[11] For this study family income and net profit have been defined as follows:

From the value of produce the costs of seeds, fertilisers, insecticides and water have been deducted and the balance termed as 'family income'. From this income, the farmer is supposed to pay land revenue, taxes, interest on working capital, labour charges for hired human and bullock labour and rent for leased-land. The concept of net profit as used here is the traditional concept which means the value of the produce less all costs. The crop rotation of hybrid maize-potato-groundnut (rotation No. 1) is profitable up to Rs 41/1000 gallons of desalinated water and the other crop rotations of hybrid maize-wheat-groundnut (rotation No. 2) is profitable up to a water cost of Rs 2.80/1000 gallons. At the estimated cost of Rs 3/1000 gallons from a 150 MGD desalination plant, the family income would be about Rs 9750/hectare for rotation No. 1 and Rs 2,500/hectare for rotation No. 2. A camparsion of both the family income and the net profit per hectare for rotation No. 1 at varying water costs shows that net profit at Rs 3/1000 gallons for this rotation is about Rs 4,750/hectare. The actual benefit to the farmer will be more than Rs 4,750 by the amount that his own human labour is valued at. It is clear that even by using comparatively expensive desalted water, crop rotation No. 1 would give a reasonable return. Assumptions underlying the estimates are given in *Appendix 'K'* [11]

It is important to note that the above estimates are based on the assumption of conventional methods of agriculture (bullock power, open canal irrigation etc.). Bullock power is a very expensive form of energy (about Rs 1.3/kwh). The sprinkler method of irrigation, can reduce the water requirements up to 50 per cent. Hence, the adoption of mechanised farming methods and efficient water management can have a significant impact on farm economics estimated in the present study.

It is commonly assumed that requirement of power is mainly for industrial growth. We

TABLE II

AGRO-INDUSTRIAL COMPLEX: WESTERN INDO-GANGETIC REGION

Power Plant		
No. of Nuclear Reactors		
Power Production	1200 MWe	
Industrial Plants		
Fertilizer Plants	*Capacity*	*Power Consumption*
Ammonium Nitrate	3200 Te/day	
Diammonium Phosphate	1275 Te/day	
Fertiliser Total	4475 Te/day	882 MWe
Aluminium Plant		
Fabricated Aluminium	150 Te/day	125 MWe
Total power consumption for Industrial complex		1007 MWe
Power sold for lift irrigation		193 MWe
	Total	1200 MWe

TABLE III

AGRO-INDUSTRIAL COMPLEX: WESTERN INDO-GANGETIC REGION

Investment Costs

Costs in crores of rupees

Plant	Capacity	Foreign Exchange	Total
Nuclear Island	1200 MWe	31·600	158·000
Electric Plant		13·400	67·000
Power Plant Total	1200 MWe	45·000	225·000
Fertilizer's*	4475 Te/Day	44·911	166·283
Aluminium Plant	150 Te/Day	17·494	38·687
Total for Industrial Complex		107·405	429·970
*Ammonium Nitrate	3200 Te/Day		
Diammonium Phosphate	1275 Te/Day		

shall examine here how important it is also for agriculture. In areas where underground water is available in plenty like in the western Indo-Gangetic region of UP the use of low cost electrical energy for lifting water along with modern agricultural methods can make a crucial difference to the profitability of farming and will have a great impact on the economy of the country.

The detailed implications of the agro-industrial complex have been evaluated for a region of western Uttar Pradesh. The area covers a population of 23.6 million people. It has Delhi to the west, Agra to the south and the Ganges flowing through the middle. There is a large amount of underground water and the soil is mostly alluvial in character. A suggested installation is described in Table II. It involves a power station with two nuclear reactors, each of 600 MWe capacity. Fertiliser plants of total capacity of 4,500 tonnes per day and an aluminium plant of 150 tonnes per day are envisaged with approximately 200 MWe used for lift irrigation through 36,000 tube wells.[11]

Table III illustrates that the total investment of the project is about Rs 429 crores. Table IV shows that the return on this investment is expected to be about 14 per cent. In arriving at this evaluation differential tariff rates of 2 p/kwh for fertilisers and 2.6p/kwh for aluminium and 10 p/kwh for tubewells have been assumed. At this power cost for fertilisers, the project is comparable to a similar one based on coal even at a pit-head coal price of Rs 35 to Rs 40. Though the power cost for tubewells is higher, the suggested rate is comparable or cheaper to the existing tariff for rural electrification in the area. Under this condition the agricultural project gives sufficiently high rate of return. A summary of the salient features of the agricultural part of the project is given in Tables V & VI. Approximately 720,000 hectares are proposed to be irrigated. The total incremental cereal production would be 4.5 million tonnes and an additional 700,000 tonnes of pulses will also be produced. The net return from the entire project is Rs 251 crores/annum.[12] The implementation of the project would result in an increase in the per capita income in the area to the extent of Rs 150/annum, or about 20 per cent. The per capita income of persons directly engaged in the project will increase by about Rs 1400 per annum. The project by itself will contribute Rs 486 crores to the gross national product. When one considers that the most important tasks faced by India are to increase per capita income and to grow sufficient food for meeting the population growth, it can be seen that the establishment of such projects has a very significant impact on this total problem. Nuclear energy is crucial for implementing the scheme because this particular area is outside the breakeven contour between nuclear and thermal generating stations.

Since only about 50 per cent of the fertiliser production is utilised within the complex, the balance will be available for use outside. The benefits derived from this by way of increased food production, increased GNP, increased per capita income, etc. though quite high, are not included in the above discussion. If we assume the same yield rates outside, the additional food production would be four million tonnes/year resulting in an increase in GNP of the order of Rs 400 crores (Rs 5000/hectare for 0·8 million additional hectares). If the area under the project is considered as a food factory, the surplus food production in the region can be a sure source for food grain procurement purposes. Being a smaller region the procurement will be easier and can be efficient as compared to the countrywide efforts required today.

TABLE IV

AGRO-INDUSTRIAL COMPLEX : WESTERN INDO-GANGETIC PLAIN

Operating Costs & Profits

Plant	Operating Costs (Rs crores)	Revenue from Sales (Rs crores)	Profit (Rs crores)	Percent return on Investment
Power Plant	13·715	31·900	18·185	808
Fertilizer Plant	59·577	88·820	29·243	17·59
Aluminium Plant	14·720	27·500	12·780	33·04
Total for Industrial	88·012	148·220	60·208	14·00

TABLE V

AGRO-INDUSTRIAL COMPLEX : INDO-GANGETIC PLAIN

Agricultural Economics of the Project

Area to be Irrigated (Hectares)	720,000
Number of tubewells	36,000
Products (additional) in tonnes	
Cereal	4·5 million
Pulses	0 7 million
Net return of the Projects	Rs 2,512 million
Fertilizer requirements (in tonnes)	
Nitrogen as fixed N_2	166,000
P_2O_5	83,000
Total investment on drilling	Rs 432 million
Net return per hectare	Rs 3,767

TABLE VI

AGRO-INDUSTRIAL COMPLEX : INDO-GANGETIC PLAIN

Benefits of the Project

Population of the area covered under the Project	23.6 (million)
	(Rs. per annum)
Increase in per capita income in the area due to the project (Agricultural part only)	150·00
Average per capita income (additional) of the population directly involved in the project.	1404·00
At 200 Kg./annum/head the 4·5 million tonnes of cereals produced additionally from the project will be able to meet the food requirement of 22·5 million people. The 0·7 million tonnes of pulses produced from the project will supplement their food requirements	

A similar study has been completed on the economic implications of an agro-industrial complex in the area of Kutch-Saurashtra where neither sub-soil water nor adequate precipitation is available. The region is arid, therefore agricultural activities are very limited or non-existent. In consequence, a desalination plant has been considered. Table VII gives the capacities of different units in the project. The project consists of nuclear power plants giving 1200 MWe of net salable power and an attached desalination plant producing 150 MGD of water. The fertiliser plant would produce ammonium nitrate, diammonium phosphate and triple super phosphate. Also, there would be an aluminium plant of capacity of 150 Te/day or 50,000 Te/yr. Table VIII shows the investment cost for individual plants.

Financial Requirements

As seen from this table nearly Rs 600 crores are required for the entire complex excluding the agricultural farm. Table IX shows that the percentage return on investment for the power and water system alone is estimated at 6·5 percent, and for the whole of the industrial part of the project (including the dual purpose plant) at about 11.8 per cent. The agricultural farm would produce 1,92,000 tonnes of maize, 3,92,000 tonnes of potato and 46,400 tonnes of groundnut in an area of 9396 hectares of triple cropping, a further 1134 hectares for double cropping and additional 28,350 hectares for single cropping. The foodgrain production alone is enough to meet the requirement of one million people. Net returns from the agricultural farm will be Rs 13.67 crores per annum. The project will contribute Rs 220 crores per annum to the gross national product. As seen from Table X most of the produced fertilisers are sold off-site. The increase in food production and GNP due to use of these fertilisers are indirect benefits of the project. Assuming that the fertilisers are enough for 1.5 million hectares of land the increase in GNP due to their usage outside will be of the order of Rs 750 crores and will result in the production of ten million tonnes of additional foodgrains.

It is clear from our analysis that establishment of nuclear power projects of adequate size along with energy consuming centres can provide valuable inputs for a developing nation. The relevance of nuclear power is estab-

lished even where inexpensive hydro-electric potential exists.

A developing country generally faces many problems in the selection of the size and type of nuclear reactors to initiate a nuclear power programme in view of various limitations involving technical, economic and national considerations.

An early start with a nuclear power programme enables experience to be gained in the design, construction and operation of power reactors. The manufacture of special reactor components generally demands a very high degree of skilled workmanship. Hence, the construction of even small reactors provides valuable experience, and enables building up technical manpower which is essential if a country is to embark on a nuclear power programme. In some cases siting of a nuclear power reactor in a remote area makes it possible to open up the area to general industrial development, which otherwise would not have been possible if conventional fuel sources were to be transported over a long distance.

Aspects to Consider

In selecting the type of nuclear reactor that would be suitable for a developing country, many aspects such as fuel and material resources, industrial capability and national policy would have to be considered. The choice between natural uranium as against enriched uranium fuelled reactors would depend upon whether natural uranium resources are available within the country. Even if the uranium resources are not adequate and natural uranium has to be imported, the availability of enriched uranium from only a limited number of supplier countries, as against the availability of natural uranium from any one of many supplier countries, would be an important consideration. The foreign exchange that would have to be committed for the life time of the station would have to be considered. For example, a country proposing to install 5000 MWe of nuclear power may have to spend about Rs 26·25 crores ($ 35 million) per year in foreign exchange for the purchase of enriched uranium fuel supplies, amounting to a total of over Rs 750 crores (a billion dollars over the operating lives of the nuclear stations) On the other hand, if the country were to install natural uranium fuelled reactors it would utilise the indigenous uranium if available, or import natural uranium concentrates which may involve a total foreign exchange outlay of about Rs 188 crores (250 million dollars) over the operating lives of the stations. Hence natural fuelled reactors would perhaps be preferred in the case of a developing country.

Evaluation of various reactors indicates that in view of India's limited uranium resources, natural uranium fuelled heavy water reactors would be the best choice as they could support the maximum amount of electrical generating capacity per tonne of uranium mined, taking into account both the initial fuel inventory and consumption. In addition, as heavy water reactors produce the maximum amount of plutonium per tonne of uranium mined, use of plutonium to fuel second generation fast breeder reactors would enable a much larger nuclear power programme to be sustained. My predecessor Dr H. J. Bhabha, and N. B. Prasad have estimated quantitatively the economic basis of a three-stage programme of atomic power development in India.[15,16]

The Indian Atomic Energy Commission has decided that only natural uranium fuelled heavy water reactors should be installed as the first generation reactors though in specific cases, based on technical and economic considerations, enriched uranium fuelled reactors might also be set up.[4,17,18]

In the case of India's first nuclear power

TABLE VII

AGRO-INDUSTRIAL COMPLEX : KUTCH-SAURASHTRA REGION

Dual Purpose Plant		
No. of Nuclear Reactors ..	2	
Power Production ..	1200 MWe	
Water Production	150 MGD	
Industrial Plant		
Fertiliser Plants		*Power consumption MWe*
Ammonium Nitrate	3330 Te/day	
Diammonium Phosphate ..	1000 Te/day	
Triple Superphosphate ..	1000 Te/day	
Fertiliser	5330 Te/day	
Aluminium plant		
Fabricated Aluminium	150 Te/day	125
Total power consumption in the Industrial Complex		1084
Power to Grid		116
	Total	1200

TABLE VIII

AGRO-INDUSTRIAL COMPLEX : KUTCH-SAURASHTRA REGION

Investment Costs

Plant	Capacity	Cost in crores of rupees foreign exchange	Total
Dual purpose plant	1200 MWe 150 MGD	75·6	370·4
Fertilisers	5330 Te/day	49·24	180·12
Aluminium Plant	150 Te/day	17·494	38·687
Total for Industrial Complex		142·334	598·207

FIG. 3

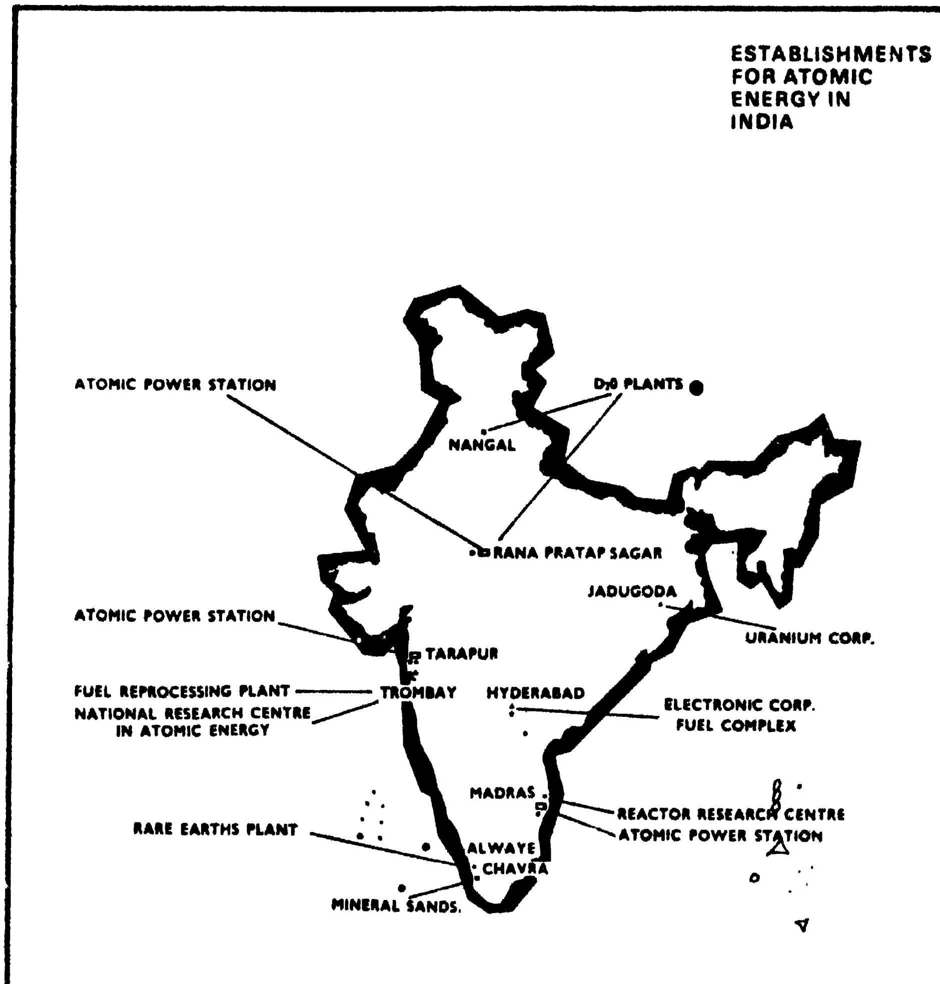


TABLE IX

AGRO-INDUSTRIAL COMPLEX : KUTCH-SAURASHTRA REGION

Operating Costs & Profits

Plant	Operating costs, crores of rupees.	Revenue from sales, crores of Rs.	Profit, crores of rupees	Percentage return on investment
Dual purpose Plant ..	20·24	44·23	23·99	6·48
Fertiliser Plant	76·61	110·41	33·80	17·87
Aluminium Plant	14·72	27·50	12·78	33·03
Total for Industrial Complex	111·57	182·14	70·57	11·08

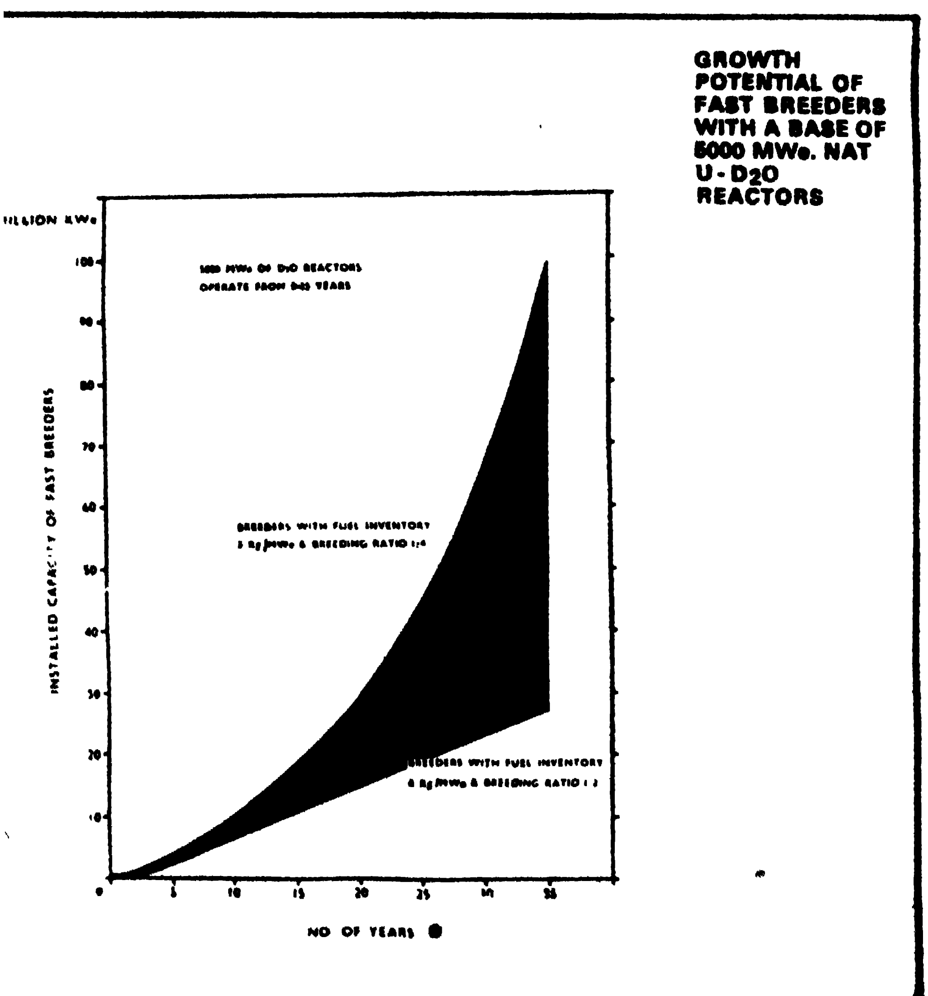
TABLE X

AGRO-INDUSTRIAL COMPLEX: KUTCH-SAURASHTRA REGION

[Agricultural Economics of the Project

Area to be irrigated		
Triple cropping		9,200 hectares
Single cropping		38,400 hectarres
Agricultural Production		
Hybrid maize		192,000 tonnes
Potato		390,000 tonnes
Groundnut		46,000 tonnes
Fertiliser product		
P_2O_5		331,000 tonnes
Nitrogen as fixed N_2		447,000 tonnes
Fertiliser consumed in complex		
Nitrogen as fixed N_2		3,900 tonnes
P_2O_5		3,100 tonnes
Net return of the project	Rs	136,7 million

FIG. 4



station at Tarapur, two BW type reactor units of 190 MWe each, using enriched uranium as fuel are being built by International General Electric Co. For the second power station, as a result of joint studies carried out with the Atomic Energy of Canada Ltd. it was decided, in 1964 to construct in collaboration with AECL a 200 MWe CANDU type unit at Rajasthan and subsequently the construction of a second 200 MWe unit has also been taken up at the same site. For the third station at Madras, it has been decided to construct two 200 MWe reactors of the CANDU type. The entire responsibility for construction at Madras is being carried by the Power Project Engineering Division of the Indian Atomic Energy Commission.

This decision to continue constructing CANDU type reactors has enabled systematic efforts to be directed towards developing the required indigenous skills, know-how and technology, thus permitting putting up successive nuclear stations with increasing indigenous content. For example, Rajasthan Unit-I involves a foreign exchange component of about 61 per cent, Rajasthan Unit-2 about 36 per cent and Madras Unit-1 about 20 per cent. It is recognised that though the capital costs of CANDU type reactors are at present relatively high, their fuelling costs are low. In consequence, the cost of power will be fully competitive with the cost of thermal power in each location.

Principal Establishments

Figure 3 shows the principal establishment of the Indian Atomic Energy Commission which are either commissioned or are in the process of completion. They include uranium mines, ore mills, natural uranium fuel fabrication plants, the processing of mineral sands, the manufacture and fabrication of zircalloy, development and manufacture of electronic and servo instrumentation, the fabrication of reactor components and building of complete power stations, fuel reprocessing and heavy water plants, and facilities for processing isotopes for industrial, agricultural and medical uses. The projects are backed by a programme of basic, applied and developmental research undertaken by the Bhabha Atomic Research Centre and other establishments.

A most important developmental project relates to the establishment of a plutonium fuelled fast breeder test reactor. The presently known uranium resources in India are rather limited and can support only about 5-10,000 MWe of nuclear power based on heavy water reactors for the life times of these reactors. Whilst exploration for locating more uranium deposits is being intensified, studies have been carried out to estimate the growth potential of fast breeder reactors based on the plutonium produced from 5,000 MWe of thermal reactors.[18] The results as given in fig. 4 clearly shows that a much larger nuclear power programme can be sustained by the use of bred plutonium in fast breeder reactors. The necessary development efforts have therefore been initiated in India. These are also significant for utilisation of thorium for power.

By all standards we have a formidable task to provide a new atomic power station of approximately 500 MWe capacity each year after 1972-73, using a minimum of foreign exchange, a very scarce commodity, and also providing the maximum spin off to industry.

If the most important *bottleneck* in our programme today is to be named, it is of trained scientists and engineers with experience to take over independent responsibility for design and construction of sophisticated plants. Even with an inventory of about 2,500 scientists and engineers in the Commission's establish-

ments, we find ourselves seriously stretched to undertake all the tasks which we can now identify for reaping a return for the investment which has been made in the last 20 years in Atomic Energy.

If there is a moral in what has been recounted hitherto, it could be summarised as follows. Undoubtedly nuclear power projects are going to be the most powerful element in the progress of developing nations. The advantages would be great if the developing nations do not acquire them as black boxes but develop indigenous capability to the extent feasible in relation to their human, financial and industrial resources. This is hardly possible unless there is participation in serious training programmes involving all aspects of research covering fundamental science and technological tasks. Above all, developing nations would have to consider whether they can afford to depend for their fuel resources on imported fuels. For this might result in the future in a new type of dependence of some countries on others, of rather profound significance in political and social terms. Moreover, striving for self-reliance is not to be confused with self-sufficiency, for progress will depend on their ability to receive as well as to give knowledge and technology internationally, on being able to interact with mutuality with other nations. For this they will need competence and self-confidence

Imaginative Plans

For developing nations to make use of the benefits of nuclear power they need to imaginatively plan not only the low cost power units but also the power consuming complex that could provide much needed inputs to the economy. They would have to disregard the traditional pattern by which initiatives are taken independently to provide different essential national inputs. Recognising that in this matter one plus one can be much more than two, they would need a new approach differing from the current practice which depends largely on growth curves of electrical load in the past for determining new generating capacity for the future. They will discover that internal, social, administrative and political problems are at least as important as economic and technological factors in undertaking tasks, and more difficult to solve since these do not lend themselves to meaningful outside assistance. This is precisely why they would find the task most challenging as well as rewarding. For, in confronting these problems squarely in respect of precise projects which cover almost every facet of national life they would acquire new strength and purpose of even more long-term significance than the project itself.

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APPENDIX 'A'

ACTIONS PRELIMINARY TO AGRO-INDUSTRIAL COMPLEX

The Indian case studies which are described in the present publication involve major assumptions which will have to be verified before one could embark on schemes arising from them. These are, for instance :

1 That the cost of CANDU type of reactors under Indian conditions would, in fact, turn out as projected in the report—both in terms of Indian technical content and foreign exchange requirements.

2 That underground water supply is capable of sustaining lift irrigation at the level envisaged without adversely affecting existing tube wells as well as surface wells.

3 That for the given cropping patterns the profit from agriculture could be as stated.

4 That appropriate social organisation can be created for a maximum utilization of tube wells.

5 That the new technologies in relation to (*i*) electric furnace for phosphatic fertilisers (*ii*) high density electrolyser cells for hydrogen production and (*iii*) double fluted tubes for desalination, will bring the results as visualised in the report.

Test situations are required to validate these assumptions. Some of them are :

1 Small diesel or gas turbine power generation units may be located for lift irrigation to build up load and its distribution even before the planned large capacity installation is commissioned.

2 A pilot plant for desalination using fossil fuel may be put in Kutch Saurashtra region to verify the desalination technology. A small farm may be attached to this plant where the economics of the cropping pattern can be tested.

3 Agricultural universities in the country may be contacted for testing the new agricultural pattern.

4 At ports such as Cochin or Mangalore (so that import is easy) where cheap electricity is available, phosphorous production by electric furnace process can be undertaken.

5 For testing hydrogen production via electrolytic process (using advanced cells) Nangal will be an ideal location.

APPENDIX 'B'

ECONOMIC CONSEQUENCES OF POWER CUTS AND POWER INTERRUPTIONS

Kerala state has almost all of its power generation from hydel sources. From 1961-62 to 1965-66 there have been heavy cuts on the consumption during the non-monsoon period. In 1966, which was a particularly bad year (with as much as 27 per cent deficiency of rainfall), the cut imposed was as much as 50 per cent in general and 75 per cent in cases of some units. Cases of cent per cent cuts lasting for two to 58 days were also reported. It must be realised that deficiency of this magnitude is likely to occur once in every 15 years. The economy suffered to varying degrees in all the years.

Shortage of power has many effects. It does not enable the consuming units to have planned production. It also affects efficiency and morale. The loss of production in one industry creates raw-material shortage in other industries that have these feed stocks. Loss of fertiliser production for example results in loss of agricultural production.

Earlier, the Directorate of Industries, Kerala state, compiled the claims of loss of production from various units and reported a loss of Rs 514 lakhs per year due to power cut to direct

consumers and Rs 900 lakhs per year through secondary loss. The loss due to interruptions was not quantified. The assumptions underlying were critically examined. More data was collected to arrive at the following results, which are deliberately conservative.

AVERAGE PER YEAR, 1961-66

	Loss to Direct Consumers*		Secondary Loss@		Total
	Due to cut	Due to interruptions***	Due to cut	Due to interruptions	
	Rs lakhs	Rs lakhs	Rs lakhs	Rs lakhs	Rs lakhs
In Production	200	100	200	70	570
In Value Added .. .	60	30	60	21	171

*Only fifty reporting large units considered. (Contributing 88 per cent of total industrial production).

@Only fertiliser to agriculture considered, other loss not quantified.

***Loss due to damages, etc., not quantified. There are many other intangible consequences.

If other units are considered and secondary loss within the industrial units is considered this loss would be Rs 750 lakhs and a value added equivalent of Rs 225 lakhs (Rs 150 lakhs due to power cut and Rs 75 lakhs due to power interruptions.)

It must be remembered that the opportunity of production lost in an economy of shortages is more costly than just the rupee worth of it.

APPENDIX 'C'

COMPARISON OF COAL BASED AND NUCLEAR POWER PLANTS

Figure 2. (Projected costs for coal-fired stations and Candu type reactors in India)

The cost estimates for larger size stations have been projected on the basis of technical and economic considerations, particularly in view of actual experience gained so far under Indian conditions with maximum feasible local supply of equipment and materials. The capital and operating costs of larger nuclear stations have been extrapolated from the detailed cost data available for 200 MWe unit size of the CANDU type under Indian conditions. The capital and operating costs of larger coal fired thermal stations have been extrapolated from the cost data available for 120-140 MWe unit sizes under Indian conditions. The studies have been done for a generalised site location anywhere in India, and much more detailed studies would be necessary for the economic environments existing at a particular location. In calculating the generation costs, the plant life for amortisation purposes has been assumed to be 25 years, and the load factor has been taken as 75 per cent. Although the generation costs have been calculated with varying annual charge rates, for the purposes of this paper results are presented only for 11 per cent annual charge rate. Any reduction in the annual charge rate would be more advantageous for nuclear power stations because of their higher capital costs. For nuclear stations the fuelling costs are based on an average fuel burnup of 8000 MWD/Te with suitable credits for plutonium and cobalt.

In determining the breakeven radius for 200 MWe nuclear station, the cost and calorific value of coal as reported to be delivered at Harduaganj, Trombay and Ennore have been used as basis. It is, however, recognised that this breakeven radius would have to be actually estasblished on the 'price contours', for various grades of coal available for use in power stations.

APPENDIX 'D'

THE TERMS OF REFERENCE & COMPOSITION OF WORKING GROUP ON AGRO-INDUSTRIAL COMPLEX

1 The terms of reference were outlined in the letter No. AEC/13/67 by the Secretary. Atomic Energy Commission, India. Relevant extracts from the same follow :

1 "Recently, the Oak Ridge National Laboratory organised a study on nuclear-powered industrial and agro-industrial complexes in which representatives from the Indian Atomic Energy Commission participated. The purpose of the study was to consider the impact of low cost nuclear energy on certain major power consuming industries like ammonia via electrolytic hydrogen, phosphorous via electric furnace, aluminium, etc. This is of particular interest to India in relation to the potentialities of an agro-industrial complex in regions such as the Indo-Gangetic plain and Kutch-Saurashtra.

2 As a follow-up of the general study conducted at Oak Ridge and with a view to specifically consider the implications of such a complex in India, it has been decided to constitute a working group including various expertise relevant to such a study. The working group will also have a panel of consultants on whose experience and knowledge they could draw during the course of their studies.

3 (a) The working group will confine its study to the two areas mentioned in para (1) and in each of these areas it will study:

(b) Comparative economics of the production of nitrogenous fertiliser via electrolysis, naphtha, natural gas or refinery gas and coal.

(c) Comparative economics of production of phosphatic fertilisers via the electric furnace and the wet processes; transportation costs of the finished material and suitability of the indigenous phosphate

(d) Economics of production of aluminium and its marketability

(e) Economics of production of caustic soda and chloride

(f) Economics of production of important crops such as rice, paddy, jowar, etc. and the relationship of their cost of production to the cost of water and the cost of fertilisers; possibility of conserving water through modern agricultural techniques.

4 (a) In conducting the study, the working group will also consider:

(b) The national estimates of nitrogenous, phosphatic and potassic fertilisers, aluminium and caustic soda

(c) The availability and requirement of raw materials such as natural gas, refinery gases, naphtha, coal, etc for nitrogenous fertilisers, phosphate deposits for phosphatic fertilisers and bauxite, alumina, etc. for aluminium;

The alternative uses of raw materials such as naphtha and the advisability of diverting them for fertiliser production.

(d) Reactor size of the order of 1000 MWe and the trend in cost reduction resulting even from large size reactors and range of cost of power production from 3 paise to 6 paise/kwh.

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The team had the benefit of consultations with the Agro-Industrial Study team of the Oak Ridge National Laboratory and in particular with Dr R. P. Hammond, Mr H. E. Goeller and Mr J. E. Mrochek.

APPENDIX 'E'

NAPHTHA PRODUCTION AND AVAILABILITY

Estimated for 1970-71	Million tonnes/ annum
Total available	4·134
For gasoline production	1·471
Petrochemicals	0·861
Export (at current level)	0·515
Available surplus	1·287
Required for the targeted fertiliser production of 3·5 million tonnes	2·864
Expected deficit	1·577

Source: Criteria in planning for nitrogenous fertiliser industry in India (1967) by Fertiliser Corporation of India.

APPENDIX 'F'

FERTILISER ECONOMICS ASSUMPTIONS AND EXPLANATIONS

(*a*) The location of the plants are, uniformly, the most favourable for a given process coal based plant at the mine head, heavy stock and naphtha based plants of the refinery, and electrolyser based plant near the power source. This puts them on equal footing.

(*b*) The life of the plant is uniformly 15 years with zero salvage value at the end of the period.

(*c*) Interest on investment is seven per cent.

(*d*) No investment on colony for workers and supporting facility for the plant has been taken into account. Thus the whole analysis has been limited to battery limit plant.

(*e*) Other minor assumptions on working capital, taxes and cost of labour, indirect material etc., have been made on a realistic basis.

(*f*) Sinking fund method is used for computation of depreciation.

2. For a given plant of 3000 tonnes per day (four streams of 750 tonnes each) of urea, cost of production for a particular process as a function of cost of feed stock used for that process has been considered for the study. In order that the fertilisers produced by fossil fuel-based plants are not costlier than those by power-based (electrolyser cells) plants, the maximum costs of fossil fuels for given electricity costs) should be as below:

Power p/kwh	Coal Rs/Te	LSHS Rs/Te	Naphtha Rs/Te
1·0	4	10	40
2·0	37	120	175
3·0	70	225	290

3. Similarly breakeven points for ammonium nitrate are as under:

Power p/kwh	Coal Rs/Te	LSHS Rs/Te	Naphtha Rs/Te
1·0	11	40	90
2·0	39	190	190
3·0	70	260	325

4. The maximum stream size assumed for phosphatic fertilisers are 650 Te/day for diammonium phosphate (DAP), 650 Te/day for triple super-phosphate (TSP), 700 Te/day for nitric phosphate (NP) and 450 Te/day for wet phosphoric acid plants. The costs of production of DAP (18 N -46P_2O_5), TSP (ON, 46 P_2O_5) and NP (24.3N, 14·7 P_2O_5) at varying prices of power and sulphur have been considered for the study. The plant capacity assumes 600 Te/day of P_2O_5 production. Thus capacity of DAP plant is 1300 Te/day (two streams), TSP 1300 Te/day (two streams), NP 4100 Te/day (six streams). The cost of production of NP is about Rs 950/Te irrespective of either power cost or sulphur cost. The break-even points between furnace acid (electric furnace process) and wet acid (sulphuric acid based process) are as under.

Power p/kwh	Sulphur Rs/Te TSP	DAP
1·0	400	430
2·0	470	500
3·0	600	600

APPENDIX 'G'

PRODUCTION, CAPACITY AND EFFICIENCY OF NITROGENOUS FERTILISER FACTORIES*

(In tonnes of nitrogen)

Name of the fertiliser factory	Feedstock	Annual Capacity	Production for the first 11 months of 1967-68 i.e. up to end of February 1968	Extrapolated production for one year	Plant efficiency (Per cent)
Public Sector					
Sindri ..	Coke & coke oven gas	102,000	66,716	72,781	71,35
Nangal	Electrolysis	80,000	71,734	78,255	97,82
Trombay	Naphtha and refinery gas	90,000	36,518	39,838	44,26
Gorakhpur	Naphtha	80,000	450	491	0.61
FACT (Udyogamandal)	Naphtha and electrolysis	62,000	23,974	26,153	42,18
Neyveli	Lignite	70,000	29,425	32,100	45,85
Rourkela ..	Coke oven gas	120,000	33,665	36,725	30,60
Private Sector					
Varanasi	Coke	10,000	4,742	5,175	51,73
Ennore	Naphtha	16,000	6,054	6,604	41,28
Gujarat ..	Naphtha and refinery gas	96,000	33,019	36,020	37,52
Visakhapatnam .. .	Naphtha	80,000	3,957	4,316	5,40

*Answers in Parliament, Oil Commentary P. 48 Vol. V. No. 13, May 15, 1968. The figures in the last two columns have been calculated by the authors. The very low efficiencies in some of the cases may be due to the fact that they are new plants which have just started production.

Comment

The only large electrolysis based plant in the list is at Nangal and curiously enough it has operated at the highest plant efficiency of 27.8 per cent when compared with other plants whose avarage efficiencies range from 40—50 per cent. It is not clearly established whether this is due to any inherent superiority of the Naugal plant or whether there are some other maladies affecting the efficiencies of the other plants. However this plant is worth examining.

APPENDIX 'H'

ASSUMPTIONS AND EXPLANATIONS FOR ALUMINIUM PRODUCTION

For estimation of cost of production of aluminium, the following assumptions are made:

1 For raw materials much as caustic, cryolite, flourspar, electrodes etc. present day average market rates have been assumed as under:

Principal Raw Materials required and quantities tonnes/tonne aluminium.)	Cost of raw materials at the point of occurence of at the port if imported.
Bauxite	Rs 10/- to Rs 15/- at minehead.
Cryolite	Rs 2,000/- c.i.f.
Aluminium fluoride	Rs 2,250/- c.i.f.
Flourspar	Rs 600/- c.i.f.
Calcined petroleum coke	Rs 400/- f.o.r.
Calcined anthracite coal	Rs 850/- c.i.f.
Low ash metallurgical coke	Rs. 560/- c.i.f.
Caustic soda	Rs 855/- f.o.r.
Coal	Rs 34/- f.o.r.
Pitch	Rs 250/- f.o.r.
Furnace oil	Rs 200/- f.o.r.

2 Labour charges have been estimated from actual operating data for smaller plants and scaled up. The cost of labour for the complete fabricated aluminium produce will be around Rs 450/Te.

3 Power consumption calculated at 22,000 kwh/tonne of fabricated aluminium.

4 Power rate for project evaluation e.g. western Indo-Gangetic and Kutch-Saurashtra region) has been taken at 2·6 paise/kwh.

5 Plant life 25 years with zero salvage value. Depreciation is computed by sinking fund method.

6 Interest rate seven per cent.

APPENDIX 'I'

COMPARISON OF THE DIFFERENT ASSUMPTIONS FOR ELECTRICITY COSTS

The cost of power from a single purpose power plant of 2 x 600 MWe has been estimated to be 2·6 paise/kwh in the discussion on agro-industrial complex. This generation cost is based on eight per cent annual charge rate, 85 per cent load factor and with no provision for return on capital. If three per cent return on capital (11 per cent annual charge rate) and 75 per cent load factor are taken, according to the procedure being adopted for calculating generation costs, this would work out to four paise/kwh.

The idea of agro-industrial complex is based on a more horizontal load duration curve. As such 85 per cent L F is quite justified here.

Also, the method of economic evaluation of the complex as used herein is to find out the rate of return on investment taking into consideration the inputs to and outputs from the complex as a whole. The capital regeneration (three per cent) need not therefore be taken into account.

Hence there is no inconsistency in the different costs reported.

APPENDIX 'J'

ECONOMICS OF DESALINATION. ASSUMPTIONS AND COMMENTS.

1. The capital cost for plants employing two desalination technologies and generating 1000 and 1200 MWe salable power were estimated.

The important assumptions (interest rate six per cent, plant factor 80 per cent, capital regeneration of three per cent, and the life of the different parts of the plant) have been indicated in the figure itself.

Thus, for a particular technology and particular total power generation, the cost for water per 1000 gallons as a function of water plant capacity is expressed in this figure.

2. The assumption of 15 years life for tube bundle is very conservative. As such in actual practice there may be considerable reduction in the final cost of water.

3. For Long Tube Vertical Evaporator (LTVE) plant the overall heat transfer co-efficient is taken as 1450 Btu/ft² hr° F as compared to 780 Bty/ft² hr° F for the Multi-Stage Flash Evaporator (MSF) plant on the assumption that double fluted tubes will be used for the farm. It should be pointed out that the above heat transfer co-efficients for MSF have been achieved in large scale commercial operation.

4. The use of sulphuric acid to treat sea water in order to reduce scale formation on the heat exchanger tube is assumed at present. If hydrochloric acid is used as an alternative it would be possible to reduce the water cost to the extent of Rs 0.30 per thousand gallons.

For understanding of the underlying assumptions for the various tables for western UP and Kutch Saurashtra projects reference to the preliminary report of the agro-industrial complex study group is required.

APPENDIX 'K'

AGRICULTURAL ECONOMICS ASSUMPTIONS AND EXPLANATIONS

1. Only flow method of irrigation has been considered for watering crops. These costs could be reduced further by utilising modern water management methods.

2. In order to maintain the load factor on the desalination plant, it is necessary to have water demand throughout the year. Crop rotation as such assumes special importance in the study. The economics of most profitable crop rotation on the basis of data collected on individual crop has been worked out. Two alternative crop rotations have been considered for the study.

3. Average yields and average prices of the crops have been assumed. Average cost of other agricultural inputs have also been taken into account.

As these crop rotations are hypothetical, they will have to be tested on experimental farms before one takes any decision on their feasibility and actual water requirements.

APPENDIX 'L'

(Extracts from Special Study Project—Summary Report dated June 1, 1968 on the Nuclear-Powered Agro-Industrial Complex, brought out by Oak Ridge National Laboratory.

Recommendations

Arid, tropical and semi-tropical regions with year round growing climates appear potentially capable of growing food at costs in or near the world market price range, using desalted water at prices like 20 c/10³ gal. The extra cost for the expensive water is at least partially offset by the opportunity to conduct intensive year round food-factory agriculture in strong growing climates with many conditions under unusually good control, including the "rain". Several crops (notably grains and potatoes) have reached yield levels such that they can supply a man with his calorie requirement using less than 200 gallons of water per day, and further improvement is potentially possible. What is more, it appears that the same is true for complete year round cropping patterns that might be employed on actual farms.

To fully realize these potentialities, or to have the option of invoking them at some future time, will require sustained R and D and interim pilot efforts on all fronts for two decades. Evaporator and breeder work has already been initiated by the Office of Saline Water and the Atomic Energy Commission, respectively. The agricultural work is more diffused and will benefit from both (a) acquiring a focus based on the long term food-factory objective, and (b) the stimulation of imaginative research into new possibilities and combinations. As an example under (a) the establishment of an experimental station of several hundred acres watered by a small fossil fuelled evaporator in a suitable warm arid location could be most valuable. Such a pilot farm would undertake the complex problem of working out optimal year round crop patterns, using the best available strains and practices from agricultural work anywhere and feeding back problems and needs uncovered in trying to put them together in practice. As a speculative example under (b) exploratory fundamental research on the effects of CO_2 enhancement within the plant canopy, carried out at least in part under controlled environmental conditions, might be considered.

Water desalting on a large scale for municipal, industrial, and agricultural purposes is at present most economically accomplished in "dual purpose" plants which also generate power on a large scale. This availability of low cost power is in some cases most welcome for promoting the development of heavy industry in the region and displacing dependence on strategic raw materials such as natural gas or naphtha or sulphur. The generalized studies which we have made suggest the profitability of such agro-industrial complexes for some developing countries, possibly even with near term technology. Thus it appears desirable to carry out specific studies in greater depth for specific regions with their own local conditions.

Because of cost scaling of the plants with size it will, under some circumstances, be economical to concentrate heavy industry at one place and accept the increase in product transportation costs, rather than disperse the industry to the product consumption areas. If nuclear reactors are employed, the energy source also scales favourably with size, yielding an additional advantage for large complexes.

The portability of nuclear power gives great flexibility in the location of industrial complexes, e.g. they can be sited at bauxite or phosphate rock deposits far from fossil fuel sources, and ammonia can be made anywhere there is cooling water without reference to petroleum supplies. The generalized studies again suggest the possible profitability of such complexes in some developing countries at sizes of 500 MWe and up, and in the US at larger sizes, perhaps even with near term technology. Thus it again appears worthwhile to carry out specific studies in greater depth for a number of individual regions with their own local conditions.

In the case of those industrial processes whose nature may be changed by the wider availability of economical power, R and D on key items may be needed either to permit adequate evaluation of their potential or to create the option of their employment without undue delay. Examples might include advanced water electrolysis cells for H_2 production, acylic generators, caustic treatment of seawater to prevent scale formation in evaporators, and chemical reactions in high temperature plasma systems.

Note: As for the purpose of this study only mainland India was considered, all the island territories of India in the Bay of Bengal and the Arabian Sea are not shown in the figures.


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Regd. No. D-314
Registered with the Registrar
of Newspapers for India
under No. R. N. 535/57

Printed and Published by R. P. Agarwala, on behalf of the Eastern Economist Ltd., United Commercial Bank Building, Parliament Street, New Delhi, at the New India Press, Connaught Circus, New Delhi.
Editor : V. Balasubramanian
Registered at the G.P.O., London, as a newspaper

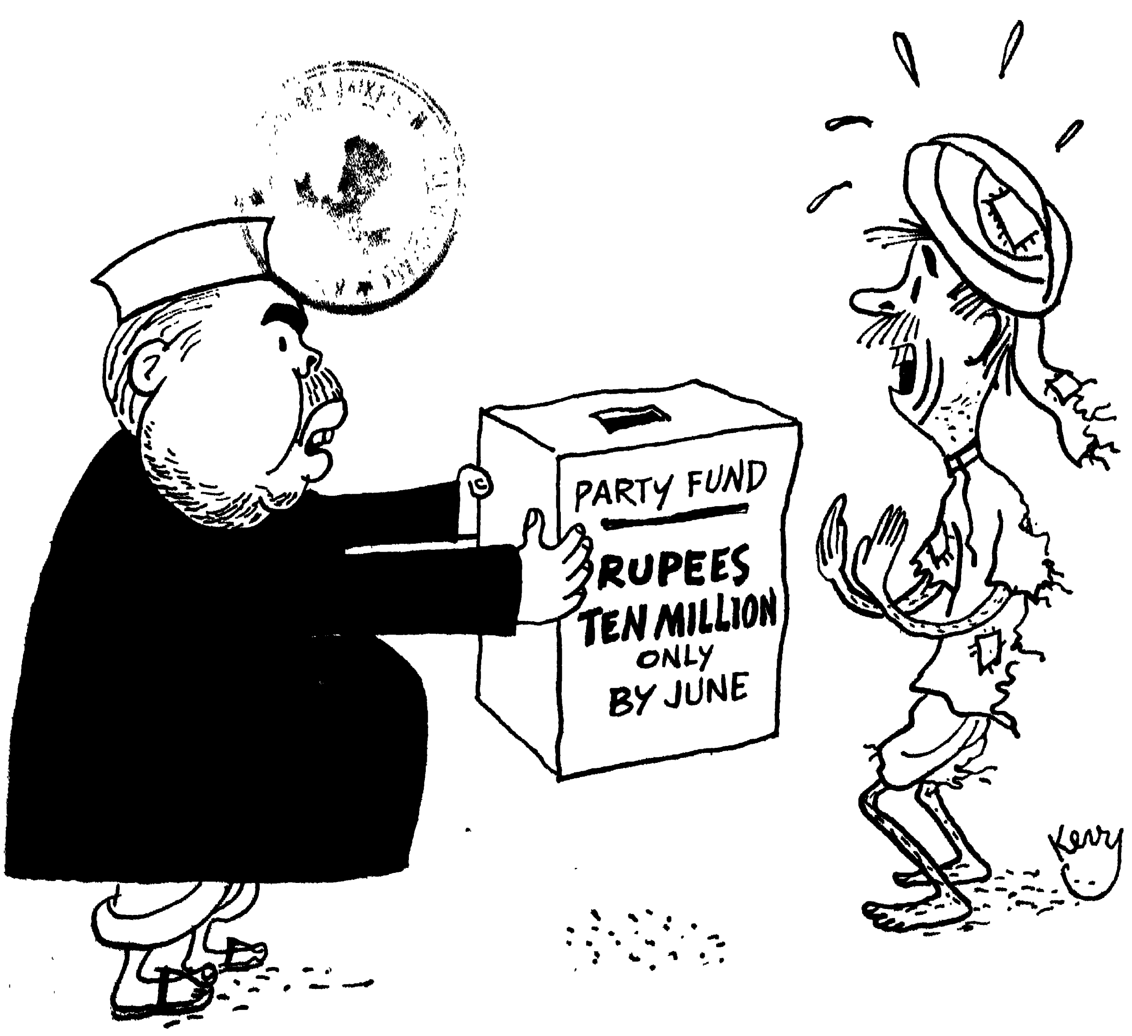
EASTERN 5 ECONOMIST

RUPEES 1.50. JANUARY 30, 1970. VOL. 54

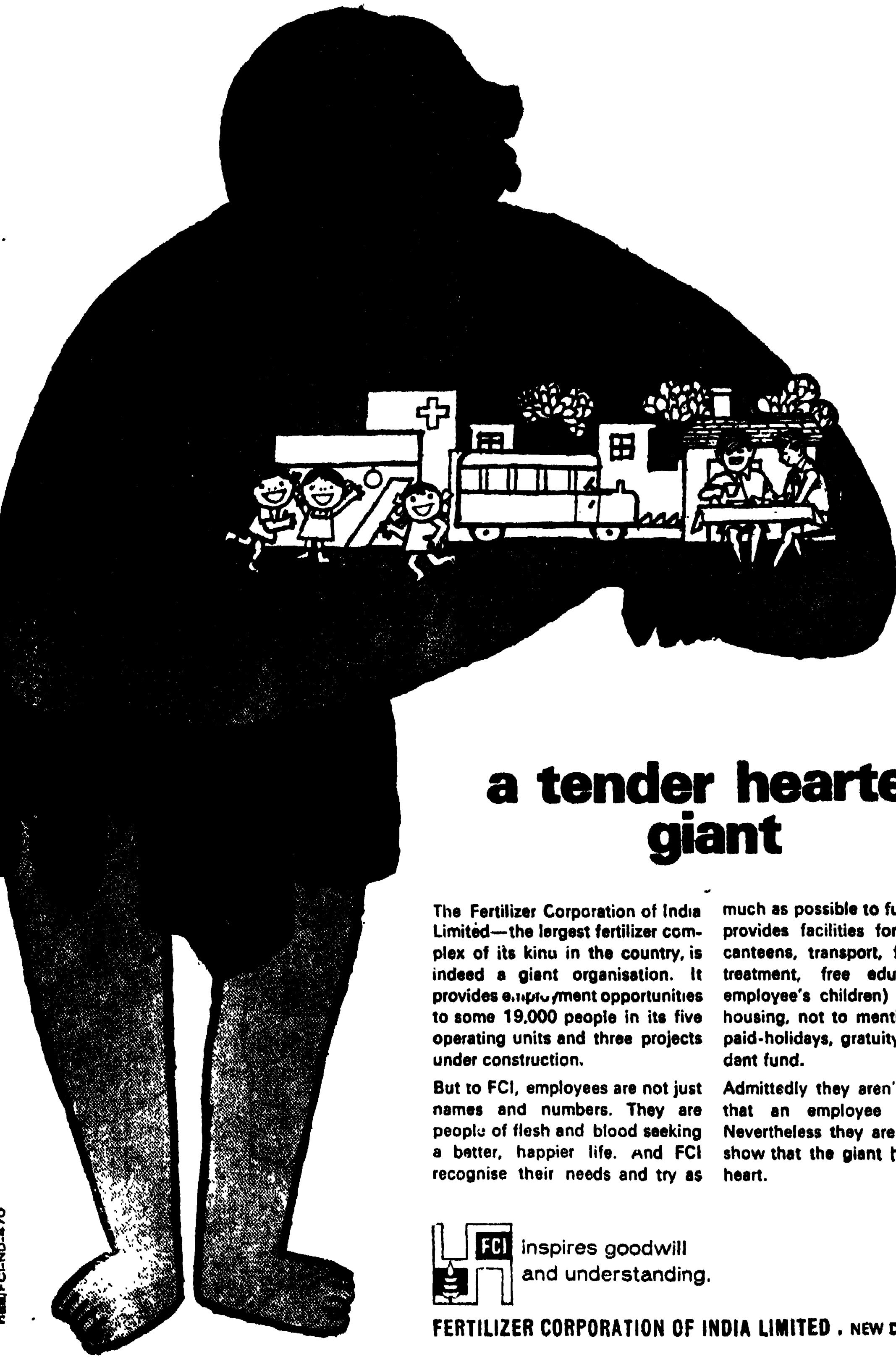
Freer Food in Tamil Nadu
Development Aid: Successes & Failures
Has Silver Lost Its Lustre?
Clients for Common Market

Between Fire and Fireworks

It is only to the abstract moralist or the absolute cynic or the man woman who has the compassion of the Buddha that all lives are sacred even that all human lives are equal. With the politician the value of li differs according to whose life it is—and Mrs Indira Gandhi is a politicia if nothing else. It is, therefore, a reasonable assumption that, although s had earlier decided that she could afford to let Darshan Singh Pherum starve himself to death and acted accordingly, she will now take the vi that the self-burning of Sant Fateh Singh would be, so to speak, anoth kettle of fish.



Say, who is quitting poverty?



EASTERN ECONOMIST

JANUARY 30, 1970

ANNUAL SUBSCRIPTION
INLAND : Rs 85.00
FOREIGN : £7-0-0 or $17-00
Airmail & Advertisement Rates on Enquiry.

REGISTERED OFFICE
UCO Bank Building, P. Box 34, Parliament Street, New Delhi-1.

Between Fire and Fireworks

AS WE write these lines on the morning of the 28th January, it does not seem likely that Punjab will go up in flames or even Sant Fateh Singh. It is only to the abstract moralist or the absolute cynic or the man or woman who has the compassion of the Buddha that all lives are sacred or even that all human lives are equal. With the politician the value of life differs according to whose life it is — and Mrs Indira Gandhi is a politician, if nothing else. It is, therefore, a reasonable assumption that, although she had earlier decided that she could afford to let Darshan Singh Pheruman starve himself to death and acted accordingly, she will now take the view that the self-burning of Sant Fateh Singh would be, so to speak, another kettle of fish. Darshan Singh Pheruman did not have the passionate mass following which Sant Fateh Singh is presumed to command. The fast unto death which the former accomplished, moreover, was undertaken perhaps less against the central government's non-decision on Chandigarh than against the politics of Sant Fateh Singh and his faction in the Akali Dal.

The Prime Minister could, therefore, adopt the attitude that Darshan Singh Pheruman's fast was essentially an issue of domestic politics in Punjab. Events subsequent to Pheruman's passing away proved her calculations right. There was no outburst of popular sentiment of a kind to give her any serious political headache. It may be that even Sant Fateh Singh's self-immolation — if this, unfortunately, were to occur, which is unlikely — need not necessarily lose Punjab to India or even the central government. But it may well lose Punjab to the present Indira Gandhi administration.

This, as Mrs Gandhi must be deploring, would, however, not be the whole story. Any act of commission or omission on the part of the Prime Minister with regard to the issue of Chandigarh is bound to be exploited against her by her political opponents in the country and Parliament, unless, of course, the decision she may ultimately take on the future of Chandigarh is so eminently reasonable that it would be received with satisfaction in Punjab and without resentment in Haryana. This is thus an occasion for a Daniel to come and deliver judgment. If an instinct for political survival would do duty for wisdom, Mrs Gandhi could be counted as a thousand Daniels or a similar number of Solomons. But there are those fatal flaws in her character, viz., a sinful pride and a self-opinionated obstinacy.

In the case of Pheruman she could get away with humouring that pride and obstinacy under the pretext that the central government could not decide a political issue under pressure or threats from individuals or political groups. It is our assessment that, where Sant Fateh Singh's life is concerned, she would find it convenient to be wise rather than proud or stubborn. This would mean that a solution acceptable to Punjab and not altogether disagreeable to Haryana will be announced well before Sant Fateh Singh gets within scorching distance of any devouring flame. Whatever this formula may be and whatever the claims made for it by Mrs Gandhi, it would undoubtedly, be a decision taken by the central government under compulsion. To say this is not to pass judgment on the merits of the settlement itself. That verdict must await the relevant announcement by the Prime Minister.

Decision on Assam Crude

THE RECENT decision of the union government on the utilization of Assam's crude oil resources has had a mixed reception. Coming in the wake of a state-wide agitation, the proposal to retain nearly one million tonnes of crude over and above the approximately 1.25 million tonnes already used by the Digboi and Noonmati refineries, for processing within the state has been hailed as a victory for the just cause of the Assamese. Several others, however, have interpreted it as a surrender to the pressure tactics of the state government; in the opinion of these critics, the Prime Minister has yielded on the issue in the interest of retaining the support of Assam for her faction of the Congress party.

The case of the government and the people of Assam is based on the simple fact that crude oil being one of the most important natural resource of the state, its processing should be undertaken in such a way that they too benefit to at least a reasonable extent in the form of higher state revenue and emp-

loyment opportunities. This indeed is a legitimate claim. More so when Assam is one of the most industrially backward states in the country. If additional crude is processed within Assam itself, it will undoubtedly foster industrialisation which will not only augment the financial resources of the state but shall also open up new vistas of employment.

The case of the critics is based primarily on the consideration that the market for processed petroleum within the Assam state and the adjoining areas of Manipur, Tripura, NEFA, Bhutan and Sikkim is limited. The region, therefore, may not be able to fully absorb in the next 10 years even the petroleum products, except kerosene which will be turned out by the Digboi and the Noonmati refineries. The two refineries at present have a combined capacity of 1.25 million tonnes. The capacity of the Noonmati refinery will be increased from 0.75 to 1.1 million tonnes in the next few years through the process of removing bottlenecks. So, as against an estimated demand of 1.09 million tonnes in 1975 and 1.66 million tonnes in 1980 (this estimate takes into account the economic growth of Assam and its neighbouring territories at a much faster rate than has been the case hitherto), this north-east region will have a refining capacity of 1.625 million tonnes. If additional capacity is installed in Assam, the critics contend, much larger quantities of products will have to be carried to outside the region for marketing than is the case at present.

The arrangement, it is further pointed out, will adversely affect the working of the Barauni refinery which is the third refining unit based on Assam crude. Citing the findings of the five-member experts committee which recently reported on the techno-economic feasibility of locating additional refining capacity in Assam, they argue that the maximum annual output of crude oil from the proved and indicated reserves of both Oil India and the Oil and Natural Gas Commission's Assam concessions will be 4.606 million tonnes in 1973. With the expansion of the Barauni refinery to 3.4 million tonnes, primarily through the process of removing bottlenecks, as in the case of the Noonmati refinery, the total crude oil requirements of the three refineries based on Assam crude will be 5.025 million tonnes. The envisaged crude output from the state, therefore, will not be sufficient to meet the full requirements of the Digboi, Noonmati and Barauni refineries; it will be just marginally more than even their present combined capacity of 4.275 million tonnes. The retention of one million tonnes additional crude for processing in Assam will, thus, necessitate making available at least a similar quantity to the Barauni refinery from elsewhere —from imports till alternative indigenous sources are found.

In view of the above, the retention of an additional one million tonnes of crude for simple processing in Assam, therefore, it is argued, will not be an economic proposition, notwithstanding the fact that nearly six crores of rupees will have to be spent on expanding the crude conditioning facilities at Moran and the Nahorkatiya-Moran-Noonmati-Barauni pipeline for carrying crude to the two main processing centres at Noonmati and Barauni. The expenditure on provision of facilities for processing additional crude in Assam and on the movement of surplus products to north Bengal and possibly further south or west will be much more than the cost of expanding the above facilities.

But the union government's decision does not envisage simple processing of additional crude in Assam. What is aimed at is the setting up of a petrochemicals complex the products of which can be consumed in the neighbouring areas or transported to long distances without much cost. If a judicious selection of the products to be manufactured at this complex is made, much of the criticism of the union government's decision will not be justified.

But to assume that the union government's decision will not create any complications will be presumptuous. The main complication will arise in regard to the meeting of the requirements of petroleum products in the high-demand Calcutta area in the next three years—till the Haldia refinery goes on stream. The fears about any large-scale modifications in the Barauni refinery equipment appear to be unwarranted as the import of low-sulphur crude which is suitable for this refinery may not pose insurmountable hurdles. The present source of supply for the Calcutta area is Barauni from which products are carried through a pipeline to Haldia. If this pipeline is to be used simultaneously for bringing in imported crude to the Barauni refinery, the movement of products through the pipeline will obviously be hindered unless the capacity of the pipeline is increased. If some movement has to take place by rail—undue expansion of the pipeline may not be warranted in view of the proposed Haldia refinery—then the question arises: will it not be more economical to cater for the requirements of the Calcutta area from Visakhapatnam, Madras or Cochin by harnessing coastal shipping into service?

But this will raise the question of how the products of the Barauni refinery should be marketed if it is to be run to 3.4 million tonnes capacity. Obviously additional products from this area will flow to the west. This may necessitate the extension of Barauni-Kanpur product pipeline to Delhi. As a result, there will be disturbance in the marketing zones of the Koyali and Trombay refineries. All this boils down to the fact that there will have to be a new demarcation of the economical marketing areas of every refinery. We feel that this study should be undertaken expeditiously. In the meanwhile, the plans to set up a new refinery at Kandla should be held in abeyance. If the products from Barauni have to be marketed more and more westwards, it will be difficult to absorb the products of the Koyali refinery in the Delhi-Punjab area.

The decision of the Kandla refinery has to be held back for another reason

Eastern Economist 25 Years Ago

FEBRUARY 2, 1945

An attempt was made in two recent issues to delineate the principles that should govern international agreements in the spheres of commercial policy and commodity regulation. Connected with this is the question of the control of international cartels through inter-government action.

The need for such control is now generally recognised, although there is sharp difference of opinon on the measure and manner of control that should be adopted on the international plane. For more than one reason, it seems desirable that a certain degree of regulation should be imposed on the activities of private international cartels through concerted inter-governmental action in the light of a code of agreed principles. The chief reason, of course, is that the cartel, domestic or international, is essentially a restrictive device, preventing the creation of additional wealth and is, therefore, out of place in any economic set up geared to the expansionist ideal of an ever-increasing flow of goods and services into the world markets. As the Economist pointed out in a recent article on this subject. "An attempt to mulct consumers for the benefit of producers is bad enough in any case; but when the producers are in one sovereign state and the consumers in another, there may be serious political repercussions. The influence that a cartel can exert on the location of an industry, by discouraging or forbidding new entrants, is a far more serious matter when it affects the relative industrial strengths of nations".

too. There are indications that the output of crude oil from Gujarat may go down in not very distant future. So, to feed this refinery, crude oil may have to be supplied from the Cambay offshore, where exploration is now being undertaken. If we fail to strike oil in this offshore area, crude may have to be imported even for the Koyali refinery.

Freer Food in Tamil Nadu

THE REMOVAL of controls by the Tamil Nadu government over the movement of foodgrains and selling prices with effect from January 9 did not come entirely as a surprise as an indication had been given earlier by the state's Food Minister, Mr P. U. Shanmugham, that the time was ripe for decontrol and the state government was considering the question of abolishing statutory rationing in Madras and Coimbatore and removing all controls over the transport of foodgrains. But while the Tamil Nadu cabinet has given the lead to the country in this regard and far-reaching decisions relating to food controls may be taken by the central government and the chief ministers when they meet in New Delhi after some time, in knowledgeable trade circles the question is being asked how the Tamil Nadu government took such a bold decision and what exactly is the significance of a record output of foodgrains in 1969-70 for the whole country and what are the reasons for the anomalous trends in respect of availability and prices.

In Tamil Nadu, thanks to a favourable north-east monsoon, a bumper rice crop is expected to be harvested in the next few weeks and there are hopes that with an extension of the area under high-yielding varieties the output of rice will rise substantially in the next two or three seasons. It is also pointed out at the same time that the carry-over stocks were exhausted in 1968-69 as there was a calamitous drought in many districts in the state and there can be a distinct improvement in the supply situation only if there are two good crops in succession.

The state government probably thought it advisable to abolish statutory rationing and continue the subsidised rupee-a-measure scheme in a modified form as this afforded an opportunity for the government to effect a substantial saving in expenditure. Also, it is felt that with a better food situation in Kerala and reports of a significant improvement in output in Mysore, there was no likelihood of smuggling of foodgrains on a large scale from Tamil Nadu into the neighbouring states. The prospect of sizable quantities of rice being received from Andhra Pradesh is not quite encouraging. But it is argued that with a record crop in Madhya Pradesh, Orissa and West Bengal and a comfortable position in Maharashtra, it will not be possible to export clandestinely large quantities to Maharashtra and other states from Andhra Pradesh, and Tamil Nadu can hope to get about two to three lakh tonnes of superior varieties of rice as in former years and sell a corresponding or a slightly less quantity to Kerala if it became necessary.

The wisdom of the Tamil Nadu government's action will be borne out only by the developments in the coming weeks as it is anticipated that arrivals against the new crop will be heavy only in February-March. But there has already been a slight decline in the open market. This development has no special significance as prior to decontrol paddy was selling at exorbitant levels in some districts and it had been complained that there was excessive procurement and consumers in the non-rationed areas were badly affected by rising prices.

The continuance of procurement operations in a new form may also have a defeating effect as it is felt that the levy of 50 per cent on the quantities exported out of Thanjavur district, the granary of the state, by establishing check posts as strategic points and the collection of a lower levy of 15 per cent in other districts will besides giving rise to administrative problems result in the procurement of large quantities of rice which may not be needed for fulfilling obligations under the rupee-a-measure scheme in a modified form in Madras and Coimbatore. It has been roughly estimated that the quantity required for this purpose may not be more than one lakh tonnes annually and that the state is adopting an unduly cautious policy for building up stocks and meeting any eventuality. It will be known before the end of March whether the food situation has improved distinctly and whether open market prices for rice stabilise at reasonable levels.

However, what is more important is the significance of this move of the Tamil Nadu government from the national angle and whether the interests of producers and consumers can be served better by extending the zone for rice and abolishing altogether controls over wheat. What is intriguing is the absence of any difficulty in absorbing the record quantities of foodgrains and any worry about the troubles that may be experienced in marketing bumper crops. The union Minister of State for Finance, Mr P. C. Sethi, observed some time back that the output of foodgrains in 1969-70 may be even as high as 102-103 million tonnes or 8 to 9 million tonnes more than the output of 1968-69.

It is likely that the earlier estimates may not be fully realised. But a crop of even 100 million tonnes should leave a sizeable carry-over into the next season and be reflected in lower prices for coarse cereals particularly. The estimates of the wheat crop are widely different. It is, however, possible that yield will not be less than 18 million tonnes and will probably be 20 million tonnes. The output of rice may constitute a record for all time at 45 million tonnes which would suggest that the yield of coarse cereals will be 35 to 37 million tonnes. With the easing of pressure on coarse cereals and larger availability of rice, there should have been by now a substantial drop in values for bajra, jowar and other coarse cereals. But there are no indications of a downward trend in prices in the principal grain markets in the country and a clear picture may emerge probably in April-May when the rabi crops are handled.

At this stage it would be pertinent to ask what exactly is the requirement of the whole population in terms of fine and coarse cereals and how a rising output has been easily absorbed. Having regard to the fact that in 1964-65 an output of 88 million tonnes was not fully absorbed and there was a carry-over of rice and coarse cereals, though it was necessary to import about 3 million tonnes of wheat, it can be safely assumed that gross consumption in that year was around 88 million tonnes. In a five-year period, the growth in consumption may not be more than 12½ per cent even with an increase in the standard of living, which would suggest that the total availability will have to be at the maximum 99 million tonnes. This figure would, however, be on the high side, if it is borne in mind that in Tamil Nadu six million tonnes of foodgrains are consumed for a population of 38 million. If the average for Tamil Nadu is assumed for the whole country, a quantity of more than 95 million tonnes will not be needed for meeting immediate requirements.

Logically, therefore, there should be a set-back in prices in the open market in April-May this year if large quantities of foodgrains are not being smuggled out of the country to Pakistan and Tibet. It can, however, be expected

that there will be compulsion to relax controls over movement and prices if the outlook for the next kharif season is encouraging and for the fourth season in succession the production of foodgrains is maintained at a high level. The only benefit so far out of a breakthrough on the food front is the absence of an increase in prices for foodgrains. But there will be positive gain only if there can be a stabilisation of foodgrain prices at slightly lower levels and with an increase in yield per acre it is possible to reduce the areas under coarse cereals and divert them for cultivation of pulses, oilseeds and raw cotton. In this sense the developments in the 1970-71 agricultural season should have far-reaching importance.

Major Step in Import Substitution

AT LONG last, a big lacuna has been filled in our oil industry. This is in respect of the manufacture of lubricants. In 1969, we could meet from indigenous sources requirements to the extent of only about 81,000 tonnes, out of an estimated total demand of approximately 500,000 tonnes. This output came from two plants—the Digboi refinery which has a capacity to produce about 54,000 tonnes of lubes annually and the Barauni refinery which can turn out nearly 40,000 tonnes a year. With the Lube India's Trombay plant and Madras refinery lubricants unit going into commercial production shortly—trial runs at the two projects have just been completed successfully—the output of lubricants during the current calendar year is expected to go up to about 334,000 tonnes. The Digboi and the Barauni units are expected to run to their full capacity this year. The Trombay and the Madras units may each yield 120,000 tonnes, although their capacities are 184,000 and 164,000 tonnes, respectively. This will meet nearly 60.8 per cent of this year's estimated 550,000 tonnes requirements. Next year when the Madras and the Trombay units reach their optimum capacities, the domestic production may go up to about 440,000 tonnes. This may meet slightly over 70 per cent of the next year's estimated requirements of approximately 600,000 tonnes.

Another noteworthy development is that for the first time we will be producing high viscosity lubes on a commercial scale this year. Hitherto our production has been confined primarily to low viscosity lubricants, although some medium grades have also been produced at Digboi. The indigenous products were blended with the imported lubes to raise their viscosity. The Trombay plant will be specialising in the manufacture of high and medium viscosity industrial and automotive lubricants. The Madras plant will produce all the three grade of lubes, high, medium as well as low. Transformer oil will be turned out by both the Trombay and the Madras plants.

The spurt in the production of lubes this year and during the next year will apparently help in reducing the import bill drastically. It is estimated that the cost of importing lubes of special grade and additives to support indigenous production will be of the order of just about Rs 10 crores, as against nearly Rs 23 crores in 1969. It will, however, be presumptuous to assume that we will become self-sufficient in lubricants in the near future. Any further leap in production can be ruled out for some time after 1971, for the process of removing bottlenecks may yield from the present installed capacity not more than 10 per cent additional output. Towards the end of the fourth Plan, i.e. in 1973, however, there may be another spurt in output when the Haldia refinery's lube unit is commissioned. This unit will have capacity to produce 150,000/180,000 tonnes of lubricants a year. An agreement for setting up the Haldia lube plant was signed with Rumania a few days ago.

We may not become fully self-sufficient in lube oils even then. As against a total capacity of about 650,000 tonnes available in 1975, the aggregate requirements in that year will be over 800,000 tonnes—according to current estimates, they are placed at around 881,000 tonnes, but this figure might prove on the high side if the rate of industrial growth does not pick up to around nine per cent per annum, as is envisaged in the fourth Plan draft. Absolute self-sufficiency in lubes, of course, may not be desirable as the demand for some types may not be enough to warrant production at economic cost. But still attention will have to be paid in the near future to augment the overall capacity by 1975 to about 800,000 tonnes, so that the shortages from indigenous sources may not be marked in the case of at least the lubes the production of which can be undertaken here at reasonable cost.

With the foundation for lubes manufacture having been laid firmly, though belatedly—the Lube India's Trombay project was mooted nearly a decade ago, but an agreement for the setting up of this venture as a 50 : 50 partnership between Esso Standard Eastern and the Government of India was signed only in 1965—it should not be now difficult to augment the capacity further, primarily through the expansion of the existing units. But what is required is a close watch on the growth in demand so that the necessary action for expanding the capacity can be taken expeditiously and well in time.

The main component of the lubes import bill in future obviously will be the cost of additives. It is hoped that attempts at import substitution in this respect will also be made in none-too-distant a future.

Development Aid : Successes and Failures

JOSSLEYN HENNESSY

ONE OF the most important reports, from the viewpoint of developing countries, to come out of the OECD is that made annually to the High-Level Committee on Development Assistance (DAC). The latest report is particularly important because its publication coincides with the beginning of preparations for the Second United Nations Development Decade. I therefore make no apology for summarising and commenting upon the report's highlights, as outlined in the latest issue of the *OECD Observer* by the chairman of the DAC, Mr. Edwin McCammon Martin.

Mr Martin begins by the admission that the development effort must be considered to be still "in a state of crisis".

Total net flows from DAC countries in 1968 increased by no less than 15 per cent to $12,900 million, but the increase was, in fact, all due to the 41 per cent rise in private net flows, as they reached a record $6,000 million, all categories increasing substantially. Official development assistance, concessional funds with a strong development orientation, which fill needs that no other funds can meet, declined from $6,700 million to $6,400 million. This was because of the virtual stagnation in the flows of three big donors, the USA, France and the UK, which together account for over 70 per cent of such flows.

Not Good Enough

Apart from the volume shortfall in official development assistance, there are a number of areas in which donor performance ranged generally from good to very good. Mr Martin stresses that the criticism that he then goes on to make sprang from his conviction that nothing less than "excellent" was good enough. For example, official assistance commitments contained a smaller percentage of grant money (58 per cent), but loans were provided on slightly softer terms in 1968 than in 1967.

Mr Martin hopes that the adoption in 1969 of the new DAC target for softer terms will lead to improvements. There was no reduction in the proportion of aid that was tied, although the USA, West Germany and Canada did in 1969 announce significant, though not major, relaxations in their tying rules.

Worse, perhaps, was the failure of bilateral and multilateral donors to make noticeable progress in adapting terms of aid to country capacity to pay, taking account not only of existing debt burdens and export growth rates but also of the degree of poverty, for the reduction of which larger future borrowings will be required.

Even more tiresome for the already serious debt problem was the jump in net outstanding guaranteed private export credits, a notorious cause of financial crises. Some went to countries like the oil producers which should be financing investments this way. But large increases were registered for Argentina, Brazil and Chile, all with recent refinancings because of excessive buildups of just this sort of short-term debt. Substantial volumes also went to South Korea, India and Pakistan, poor countries which already face disturbingly heavy loads of debt.

Misdirected Aid

Though improvements are still required in the geographic distribution of aid, there was not much change in 1968. Some still goes where it will promote political or cultural objectives or short-term economic interests rather than where it is most needed or will best produce more development. The most conspicuous case is the $500 million, mostly scarce grant money, which the USA has been paying out for several years in south-east Asia. It may well be necessary and it undoubtedly has some development effect, but to include it all in "official development assistance" (a new concept recently introduced by the DAC which excludes official export credits and certain other official flows at market terms) can only lead to embarrassing questions as to why such aid has not produced bigger dividends, although the report adds nervously that this does not mean that it was "wasted in the customary sense of the word"—a phrase the meaning of which escapes me.

Nor did donors succeed in achieving any radical improvements in co-ordination at the country level, especially with respect to technical assistance, of increasing bilateral and multilateral programmes in many countries.

Mr Martin fears that, while steady improvement is being made, far too much technical assistance is still engaged in transferring knowledge and skills that may or may not be relevant in developed countries, but are clearly irrelevant to the problems, situations and resources of developing countries.

Trade is not DAC's business but it is vital to development There persists a general reluctance among developed countries to open markets wider to exports of agricultural and industrial products which developing countries can demonstrably produce in larger quantities and at lower prices. Increasingly to open their markets would not be charity but common sense; it would help producers in developing countries and delight consumers in developed countries.

Minimal Progress

Progress was minimal on the UNCTAD II commitment to extend non-reciprocal preferences on manufactures. And there was an increase rather than a decrease in funds to subsidise production, and in some cases export, of agricultural crops that compete with cheaper output in developing countries. It is, however, consoling to note that there was nevertheless a major increase in export earnings arising from prosperity in the DAC countries.

In the USA in particular, as also in several other key donors, there continues a small but vocal opposition to the effort for development, accompanied by widespread apathy. Some legislatures are reluctant to expand aid in the face of (1) competing claims for always scarce public funds, (2) the demands for cuts in budget deficits to halt inflation, and (3) the public aversion to more taxation. Mr Martin stresses that no aid programme, adequate for current needs, can be funded except out of taxpayers pockets. That is why the stagnation in net official flows in 1968 is so disturbing.

Mr Martin wonders whether the time has come to consider whether the huge

sums spent for military purposes may not largely reflect an instinctive, traditional search for peace and security, rather than a rational modern approach to them. Might not an application of cool, forward-looking analysis, of the sort which has been so successful in the material sectors of our societies, give us a better understanding of the world of the future, and suggest new means for dealing with its perils?

II

RECORD OF DEVELOPMENT

The objective of flows of financial resources and the technical help that they make possible is the more rapid development of nations seeking to better the lives of their people. Hence no report on donor programmes is complete without some description of what has happened in the developing countries as a result of their own efforts. External collaborators are often able to provide—if wisely handled—the critical margin of resources needed to break bottlenecks.

The first points to note are the defects in the figures, which look so definite and reliable, the wide range of situations which make generalisations always more or less inapplicable to any one country, and the inability to measure the changes in institutions, structures, and attitudes, without which modernisation and better living are impossible.

The year 1968 was a comparatively good year, though there were failures as well as successes. Economic growth in real terms again averaged between 5 and 6 per cent. In the 1960s economic growth has thus equalled if not surpassed the 5 per cent per year, mentioned as the growth goal of the First Development Decade.

But it was again, as in 1967, largely due to the exceptionally good progress of about a dozen countries who bettered 7 per cent including Burma, Taiwan, Costa Rica, Iran, Israel, South Korea, out of some 45 for which we now have data. Most had average records of 4·6 per cent. Of these 45 countries, only Jamaica, Peru, Uganda and Uruguay fell below 3 per cent, though many of the least developed countries probably had poor growth as well as poor statistics.

One year is a short and arbitrary time to appraise progress. A longer look must be superficial, done with a broad brush, but it is essential if we are to plan for the '70s to try to get some impression of what is going on and why. So here we go :

Considering the difficulties, progress over the sixties has been remarkably good, although some countries have done better than others and a few people in most countries have benefitted more than the masses. The facts do not call for despair, but for sober optimism.

In the political sphere it is still difficult to appreciate the historical significance of the 1960s. But surely the decade will be remembered for more than the walk on the moon. Sixtysix nations that were colonies in 1959 are today independent. The magnitude of this change in international relationships and the accompanying need for the creation of the whole apparatus of a nation-state, an independent sovereign society, are staggering thoughts.

The 5 per cent-plus GNP growth at constant prices is higher than developed countries reached over any extended period at similar stages of their modernisation.

Boom in Education

Education has boomed; enrolments have doubled or tripled since the early '50s. Developing countries have devoted a steadily growing percentage of public revenue to it. At the same time, donor countries have significantly helped developing countries in their educational efforts by providing teachers and school facilities. In 1968, there were 49,368 teachers financed by DAC countries in the developing countries. Since 1950 the average annual increase in adult literates has exceeded 20,000,000, but the high rate of population growth has meant an increase in illiterates.

In the past few years a "green revolution" has got underway in a number of major countries, with output per acre of wheat and rice often doubled, reflecting not only larger and better inputs but also a change in farmer attitudes toward innovation which has surprised many who thought that if they could not read they could not count. Its greatest importance is the attention that it has attracted to how much applied science can now do in designing plants to specifications of climate, soil, water, nutritional content and immunity to pests and diseases.

The difficulties faced in taking these steps forward were much greater than the industrial nations faced in their development. For example, an intense urge has arisen in the developing countries to catch up with the developed today, not tomorrow. There is an acute scarcity of capital resulting in high interest rates. The developing countries have been forced to fight for markets against not only superior technology of the developed but some blocking of access to their consumers, made possible by the use of trade barriers among the developed.

While developing countries have benefitted in many ways from advanced techniques, the sheer complexity of modern technology and its rapid changes have prevented them from reaping the windfall profits of true innovation on which European and later US growth depended and still depends so heavily.

The heavy pressure of democratic political and social institutions on the leaders of developing countries have often come before instead of, as in the west, after their economic and educational revolutions were well under way.

It is too soon to have a clear and objective explanation of the successes that, despite these difficulties, the developing countries have achieved. But a few things stand out.

The example of western prosperity has sparked a "revolution of rising expectations", politically disturbing, but also convincing many that their lives could be improved. Although Mr Martin says that this stimulates them to try to do something about it, it is my impression that ninetynine out of a hundred expect their governments to do it for them ! I suggest that some developing governments could profitably buy up for mass distribution copies of Samuel Smiles famous book *Self-Help*, that played its part in stimulating the ambitions of individuals so successfully in Victorian England. First published in 1859, and translated into twelve languages, 250,000 copies had been sold in English alone by 1904 when Smiles died.

Growing Markets

Modern technology has also created new and fast-growing markets for some non-agricultural primary products like petroleum and minerals, as well as provided better means for finding what lies hidden underground.

Perhaps even more important, modern economic science has enabled the managers of our economies and our international monetary system to avoid serious cyclical depressions. The unprecedented rate of steady growth that the west has achieved has offered a rising, though shifting, market for most exports of the developing countries. Thus despite synthetics, trade barriers, and slow growth in western consumption of tropical foods, the exports of developing countries have increased in value in each of the last ten

years; there is no previous period of more than five years without a decline.

These rising export earnings, reaching a total of $47,000 million in 1968, have been supplemented by a near doubling, since 1956, of the annual net inflow of external capital, public and private, from DAC countries, though adjustment to constant prices would probably cut this increase by about one-third.

III

NATIONAL AND INTERNATIONAL RESPONSIBILITIES

"With this record why then", asks the chairman of the OECD DAC committee, "are there so many and so vigorous complaints from the leaders of the developing world? Is it right that the leaders of the majority of the developing countries should be alleging crisis, despite the astonishing progress made so far? I think it is. They have clear evidence before them of what kinds of lives modern science and technology, properly harnessed by man, have made possible for hundreds of millions of others, and cannot help but believe it could do the same for them if only we would somehow arrange it.

Against this, however, they see the dollar gap in incomes steadily widening, primarily because of their dependence on exports to the west, which in turn depend in part on the growth of western GNP. This makes catching up, especially in view of the west's much larger initial per capita GNP, seem discouragingly far in the future.

Falling death rates have spectacularly increased population growth rates to a 2.5 per cent average per year. Thus for many countries their GNP growth has meant little more to individual incomes than standing still.

The levels from which most of the developing population starts are shockingly low; even a 3 per cent increase in per capita incomes won't buy much more if the starting point is $100 per year, which is the average (or less) for countries including two-thirds, or 1,000 million, of the people in the non-communist developing world.

In these countries, and even among a large percentage of persons living in the more prosperous and successful countries, improvements in living during the decade have been deplorably small. There has been no noticeable reduction in the huge numbers of unemployed or under-employed or in the prospects of the tens of millions of families eking out a living as subsistence farmers, sizable groups in even the richest countries.

Inequality of income within each country remains a grave problem, conspicuously worse in most cases than in developed countries. The vast majority, who are experiencing little perceptible improvement in their daily lives, constitute today's basic problem.

A better distribution of incomes within countries is a domestic issue, but the great differences in conditions and rate of progress among countries are a proper concern for the international community. National actions by both donors and recipients and, even more, concerted actions within the framework of the strategy for the Second Development Decade should tackle both these inequalities.

A report of the utmost interest to the developing countries it is of unusual importance because, its publication coincides with the invitation of preparations for the Second United Nations Development Decade.

IV

SUGGESTIONS FOR THE 1970s

I commented above upon the highlights of the OECD report as outlined in the latest issue of the *OECD Observer* by the DAC's chairman, Mr Edwin McCammon Martin. Now I run over Mr Martin's personal recommendations for action. Since they do not form part of the official report, Mr Martin was able to express himself with greater freedom.

The task ahead is an intensive search for ways to mobilise our human and material resources to do a still better job. The resources at the disposal of developed countries are, in Mr Martin's view, "very great indeed".

Only governments can decide together what should be done, in what organisational framework, and with what priorities. Only a convinced public opinion can ensure that action is taken, whether in developed or developing countries, or by international institutions.

Developing countries' leaders are no doubt aware that there are a number of countries in which the dominant elements of the population are working and saving, bent on action and innovation, looking forward rather than backward, confident of their ability to change their lives. There are, however, also other countries in which those who should be setting an example prefer leisure, spending, talk and the *status quo*. They gaze regretfully at the past rather than hopefully at the future.

Needless to say the confident innovators will get somewhere, the *status quo*-ists will get nowhere. Without some leaders who have made the change, modernisation will proceed at a crawl, no matter how rich the natural resources or how generous the external help may be. How to speed this change in attitude is a secret which we should all be striving to solve, rather than appointing committees of planners to construct a new, more sophisticated growth model.

Sense of Participation

Part of the answer must surely lie in a general sense of deep participation in the national life, its struggles and ambitions. In some countries success seems to have followed external threats by powerful neighbours. In others, the political, social and economic structures have by chance or good luck fostered widespread loyalty to national development. Structural change may entail high economic costs but if it can change lethargy into enthusiasm, it may be worth costs and risks. Such reforms as generally enforced progressive income, property and estate taxes, and redistributions of agricultural land, increase the sense of participation in the benefits of development by reducing present gross inequities in income. They are needed in many countries. But it can be argued—not, of course, as a substitute for these measures—that an even more effective attack on feelings of isolation and on maldistribution of incomes can be achieved by giving more people productive, full-time employment.

This is an effort with a rare combination of social, economic and political dividends. Besides representing economic waste on a grand scale and being the source of many social evils, the unemployed, educated or uneducated, are political dynamite. This has been accepted since World War II by most developed countries which have made "full employment" a central aim of national policy. Mr Martin suggests that full employment should be a central theme for the development effort of the seventies, justifying major investments of human and material resources regardless of whether the GNP return will come sooner or later. I don't much like that word "regardless". It will encourage politicians to promote employment for its own sake, usually by pouring funds into an important but declining industry or activity. This may win votes, but it ensures the preservation of the *status quo* which Mr Martin deplores. I hasten to add, however, that Mr Martin is not referring here to the preservation of tradi-

tional industries, but to the need, for long-term economic reasons, of expenditure on health, education and family planning.

To be a productive worker requires good health, the foundations of which are laid by adequate pre-school nutrition, especially of proteins. Neither present income levels nor eating habits will achieve this. Major public programmes will be required, an investment that can only pay off economically in the '80s and '90s. But there is increasing evidence that, even in the short run, improved child nutrition can substantially reduce expenditure on medical care and greatly improve the efficiency of expenditure on education by reducing excessive drop-out rates. The food aid currently given by donor countries, especially for school feeding programmes, is an important contribution to better nutrition. The authorities of developing countries should pay more attention to the needs of pre-school children. Though they can only make partial contribution to the total problem, donors should be able to find further uses for their surplus foods in such new or extended recipient country nutritional programmes.

Efficiency in the education of potential workers must also be greatly improved by relating curricula more closely to the needs of the developing society and by using modern communication techniques more boldly.

But, of course, healthy, trained workers need jobs. At least some of the many aspects of this difficult problem can perhaps be tackled in the '70s. For example, far too often all parties concerned design production facilities and techniques on the principle prevailing in the economically dominant industrial world that labour is expensive and capital cheap, whereas in the developing world labour is nearly always cheap and capital expensive.

Labour Intensive Production

Engineers and production experts in industry and agriculture and construction should have no difficulty in finding more labour-intensive ways of producing quality products at reasonable costs, when labour is cheap and capital dear.

Increased employment through larger exports is also fundamental. Greater acceptance by industrialised countries of competitive goods is a first step. But developing countries must also organise a whole series of export-oriented policies. The success which a number of countries like South Korea, Taiwan, Israel, Mexico, Hong Kong, have achieved in expanding their exports of both agricultural and industrial products shows how important export policies are. But while they can close the unemployment gap somewhat in the seventies, all the evidence is that, as the unprecedented birth rates of the sixties swell the labour force of the late '70s and '80s, they may prove only able to hold the line, if that. There is no prospect, even dimly on the horizon, of keeping unemployment at tolerable levels, let alone reducing it to what should be a normal rate, without a major slow-up in birth rates.

Too large families reduce the possibilities of individual savings. Too many people for whom the government must provide education and housing and public services reduce the public savings available for productive infrastructure. Too many children as against workers reduce the total income per head possible. Too many children prevent making all literate and add to the difficulty of giving any but a very few a high quality education.

Conscious international efforts at family planning are unprecedented in human history but no more unprecedented than what has happened to population growth rate in many countries in the past 20 years.

There is a simple but fundamental choice between an exploding quantity of people and an improving quality of

SELECTED PERFORMANCE INDICATORS FOR DAC MEMBERS, 1968

	I		II		III		IV	
	Estimated GNP per head		Total net flow of official and private resources to less-developed countries and multilateral agencies		Total official flows		Official development assistance	
	$	Relative position	% of GNP	Relative position	% of GNP	Relative position	% of GNP	Relative position
United States	4,360	1	0·65	12-13	0·41	8	0·38	8
Sweden	3,230	2	0·50	15	0·28	11	0·28	9-10-11
Canada	3,000	3	0·49	16	0·34	10	0·28	9-10-11
Switzerland	2,760	4	1·42	1-2	0·11	16	0·11	16
Denmark	2,750	5	0·55	14	0·21	14-15	0·21	14
France	2,500	6	1·17	3	0·68	1-2	0·68	1-2
Australia	2,330	7·8	0·67	10	0·56	3	0·57	3
Norway	2,330	7·8	0·65	12-13	0·26	12	0·28	9-10-11
Belgium	2,190	9	1·15	4	0·44	6	0·41	7
Germany	2,180	10	1·26	1-2	0·45	5	0·42	5-6
Netherlands	1,970	11	1·10	5	0·54	4	0·53	4
United Kingdom	1,840	12	0·75	8	0·42	7	0·42	5-6
Austria	1,530	13	0·66	11	0·25	13	0·20	15
Japan	1,410	14	0·74	9	0·36	9	0·25	12
Italy	1,360	15	0·76	7	0·21	14-15	0·23	13
Portugal	540	16	0·94	6	0·68	1-2	0·68	1-2
TOTAL DAC	2,700	..	0·77	..	0·42	..	0·39	..

Source : O.E.C.D. Observer.

life. We cannot now, any of us, have both. It is clear that the progress of the developing countries in dealing with these grave problems, and others which some of them face, will be much slower, may even fail, if they cannot count on more assistance from developed countries, more imaginative and wiser in substance and procedure than achieved so far. Otherwise we run the risk that a slow-up in the pace of modernisation will grind to a halt or even start a backward slide. It is a process in which a degree of dynamism and hope must be maintained to avoid a feeling of such discouragement that political will and cohesion is lost. If this moment is lost, it may take a long time to rally and re-group constructive forces to resume the struggle for sound development by rational means. Donors have therefore a great interest in re-examining their efforts to see how and at what pace they can improve their performance to meet the urgent needs which exist.

V

THE SECOND UNITED NATIONS DEVELOPMENT DECADE

The most important event for the progress of development over the next few years may be the action, expected in the autumn of 1970, by the UN General Assembly on a strategy for the Second Development Decade."May be" is all one can say now because, despite the discussions which have been going on for over a year in several United Nations forums, the outcome is as yet uncertain. Neither developed nor developing countries have yet faced clearly at their highest political levels the full implications for the international political scene in the seventies of the choices before them. Each country—block solidarity is, fortunately, not likely to prevail —must choose its line of negotiation.

One choice for the developed countries would be to decide that a joint programme to promote development, backed strongly by the developing countries, would be worth sacrifices in the short-term, and to propose measures for greater, mutually-supporting efforts by all countries, taking into realistic account the limits of their capabilities on the one hand, and the urgent needs of recipients on the other.

Such a new approach would be important not just because of new steps agreed to, nor even new dates accepted in principle for achieving old targets, but also from the expression of a clear intention to continue throughout the decade to seek to evolve new programmes and make new efforts as required by continual changes in conditions or which may become possible as the informed public, who in the end is the controlling factor, gains new understanding that the long-term interests of all countries are interests in common.

An invaluable outline of the reasons for this choice, together with a provocative list of constructive suggestions for programmes of action, is contained in the recently published Report of the Pearson Commission, which should be read by all seriously interested in the welfare of the peoples of the world, more especially of the two-thirds struggling so desperately to move ahead. The report shows that aid has contributed effectively to development and that there is a clear need for substantially increased flows to finance requirements of demonstrable priority and use.

"Confrontations" will not promote development. They would be a form of warfare, albeit non-violent. What is wanted is consultation not denunciation, ending in compromise. Let us hope that with the skilled help of United Nations authorities, with a long experience in these matters, and with further major efforts in all countries to appreciate the true dimensions of the problems of development for this and future generations, a strategy can be agreed by the end of 1970 which will be not only a real co-operative step forward but, even more important, will promote mutual understanding of what is involved and so facilitate steady improvements of policies and actions throughout the 1970s. Major social progress seldom comes in "great leaps" foward but rather by constantly widening understanding and steady improvement in arrangements for achieving more and more ambitious goals.

VI

SOME NEW INTERNATIONAL AID INITIATIVES

In February, 1969, the Development Assistance Committee of OECD adopted a new supplementary recommendation which should lead to an easing of the *financial terms* of its members' official aid to developing countries (cf. *OECD Observer*, June, 1969).

On July 23, 1969, the second general replenishment of the International Development Association's (IDA) resources came into force. This provides for expanding IDA's resources to $1,200 million equivalent, payable in three annual instalments of $400 million each, as against $250 million in the previous three years.

The International Monetary Fund approved in June, 1969, an arrangement to assist members in financing contributions to international buffer stocks. Drawings to finance buffer stocks in connection with international commodity arrangements may be made up to amounts equivalent to 50 per cent of the member's quota, provided that drawings under the Fund's compensatory financing facility, which has existed for some time, and the buffer stock facility taken together, do not exceed 75 per cent of the quota. The IBRD will also make loans for this purpose.

The Report of the Commission on International Development, which was commissioned by the President of the World Bank in August, 1968, and prepared by an eight-man team under the chairmanship of Mr Lester Pearson, was published on October 2, 1969. Besides recommending a larger volume of aid, the report makes recommendations on trade policy, private foreign investment, terms and conditions of aid, population research and on the international framework of development.

Multi-national Corporation

The Private Investment Company for Asia (PICA) was founded in February, 1969, by prominent financial and industrial concerns in the USA, Japan, Europe, Canada, and Australia. PICA's authorised capital is $40 million, of which $16.8 million was paid at inception. Shareholding as well as staff representation are divided into three equal groups of members from the USA, Japan, Europe, Canada and Australia. PICA is organised as a multi-national corporation to make and facilitate private capital investments in the developing nations of east Asia. Equity capital and medium and long-term debt will be provided both to establish new enterprises and to expand and diversify existing companies.

Legislation in the UK in 1969 extended the possible areas of operation of the Commonwealth Development Corporation(CDC) to all developing countries; the CDC's annual allocations from the aid budget consist in increasing proportions of concessional finance.

On November 26, 1969, the UK government published its forecast for public expenditures including aid until 1973-74. Economic aid is to increase from £219 million ($526 million) in 1969-70 to £300 million ($720 million) in 1973-74.

Procurement restrictions in the USA were eased in 1969 by the abolition

of "additionality" requirements. This provision had been introduced in 1967 in order to ensure that aid-financed exports be "additional" to regular commercial exports.

For all AID loans to Latin American countries signed after November 1, 1969, purchases of goods and services are authorised not only in the USA but in all independent countries of the Western Hemisphere, south of the USA, except Cuba. (The present "90-10" origin or componentry rule—whereby at least 90 per cent of the value of eligible finished items must have been indigenously produced in the eligible geographic source countries—will be maintained until the US gains experience with the new untying arrangements.)

The President appointed a Task Force on Foreign Economic Assistance in September 1969, to review US economic assistance programmes and to recommend comprehensive proposals by March, 1970. The task force includes representatives of banking private industry, the academic community, and others.

Note : I need hardly say that Mr E.M. Martin is not responsible for the emphasis of my summary of his report in the latest *OECD Observer*, still less for my comments.

Has Silver Lost Its Lustre ?

S. P. CHOPRA

In the middle of 1967, the US Treasury terminated its commitment to sell silver at the fixed price of $ 1.29 per ounce due to dwinding reserves of the white metal. Since then, silver prices have experienced violent fluctuations, the peak at $ 2.56 per ounce in the New York market having been attained on June 12, 1968. By January this year, it had declined to $ 1.81 per ounce. Speculative demand, increased industrial uses and the declining use of this metal for coinage are some of the major factors which bring about fluctuations in its price though occasionally the international monetary crises also exert some pressure.

An important fact which needs to be emphasised about silver is that the yearly world demand for it is higher than production. In 1968, world production (excluding communist countries) of silver at 238.2 million ounces was 58.5 per cent of total consumption at 406.8 million ounces. In 1950, however, the gap between production and consumption was negligible ; whereas world production was estimated to be 198.6 million ounces, consumption was marginally higher at 201.5 million ounces. Again, world production of silver between 1950 and 1968 rose by 20.0 per cent while consumption got more than doubled. An extrapolation of trends in regard to production and consumption of silver shows that the gap between the two will continue to widen in the coming years.

Mining being a long-term proposition, it may not be possible for producing countries to increase silver production in the next few years. Moreover, silver is a by-product of such base metals as lead, zinc and copper. The price behaviour and the demand for these metals have a major influence on silver output.

Subdued Demand

For the last two years, the demand for these metals has been subdued. If the price of silver rules above $ 2.20 per ounce, the producers will have some incentive for raising the volume of its output. In 1968, its price was above this level for a major part of the year resulting in about 10 per cent rise in output. In 1969, however, the price of silver ruled below $ 2.0 per ounce and hence the rise in production is estimated to be negligible. It will not be surprising to find a small fall in production when data from all the producing countries is received. The major silver producing countries are Canada, Mexico, Peru and the USA (see Table I).

The industrial uses of silver such as photographic processes, manufacture of electrical and electronic instruments, jewellery, art works etc., have increased enormously during the past two decades. Against the consumption of silver in 1950 at 157.4 million ounces for industrial uses, the volume of consumption in 1968 was as high as 347.3 million ounces (see Table II). The major consuming countries are the USA, West Germany, Japan, the UK and Italy. Even though the rise in the price of silver in 1967 and 1968 made the use of this metal in industries costly and pushed up the cost prices of end-products, yet there was no fall in consump-

TABLE I

WORLD SILVER PRODUCTION (Excluding Communist Countries)

(In million ounces)

	1950	1960	1965	1967	1968	Percentage increase (+) or decrease (—) of 1968 over 1967
Mexico	49·1	44·5	40·3	38·3	41·6	+8·6
USA	42·3	36·8	39·8	32·1	35·0	+9·0
Canada	23·2	34·0	31·9	36·4	45·6	+25·3
Peru	13·4	30·8	36·5	37·0	37·0	..
Bolivia	6·6	4·9	4·1	5·0	5·0	..
Other South and Central American countries	7·0	7·8	10·1	10·0	11·0	+10·0
Total Western Hemisphere ..	141·6	158·8	162·7	158·8	175·2	+10·3
Outside the Western Hemisphere	57·0	49·0	55·7	58·0	63·0	+8·6
World Production excluding Communist countries	198·6	207·8	218·4	216·8	238·2	+9·9

Source : The Annual Reviews of Silver Market by Handy and Harman.

tion. On the other hand, use of silver for purposes of coinage has been on the decline. This trend is clearly visible in all countries including the USA, the foremost consumer of silver for coinage.

In the USA, the treasury has been the main non-producer source for filling the gap between production and industrial consumption. Also, for purposes of coinage, it has always provided all the silver needed. The pressure of demand from both these sources became so heavy in 1965 that the treasury was afraid of losing all its reserves. It was in these circumstances that the Coinage Act was passed in that country, and non-silver dimes, quarters and 40-per cent-silver half-dollars were put into circulation. Lately, there is a move to put into circulation non-silver half-dollars in place of the ones having 40 per cent silver.

When the US Treasury stopped its sales of silver at \$ 1.29 per ounce in July 1967 and the free market price of this metal rose sharply, it became profitable to melt the US coins. The government in that country clamped a ban on melting of silver coins as well as their exports so as not to lose this important source of supply. For industrial uses, the General Services Administration (GSA) released two million ounces of silver per week at market prices. It was possible for it to do so because the treasury had succeeded in acquiring about 300 million ounces of silver between mid-1967 and end of 1968.

In 1969, the redemption of silver from coins had been reduced to a trickle. Silver coins were no longer in circulation as the dealers, collectors and speculators had mopped up all the floating stocks. In order to increase the supply of silver for industrial uses, the treasury permitted, on May 12, 1969, the melting of coins and reduced the supply of silver sales to 1.5 million ounces per week as against 2.0 million ounces.

Silver, like gold, is also used as hedge against inflation. As private possession of gold has been banned in many countries, people have turned to silver as a safeguard against economic uncertainties. In durability and ease in storage, silver is as good as gold. It is therefore natural that speculative demand for the white metal should be a major determining factor in its price behaviour especially when the yearly mined supply is significantly lower than demand. Every time the price of silver goes above \$ 2.0 per ounce, it is likely to increase the flow from the speculative hoard and also to make the mining operations profitable. That is why the price of silver ruled below this ceiling throughout 1969.

As stated above, more silver is

TABLE II

WORLD SILVER CONSUMPTION (Excluding Communist Countries)

(In million ounces)

		1950	1955	1960	1965	1967	1968	Percentage increase (+) or decrease (−) of 1968 over 1967
I.	**Industrial Uses :**							
	USA	120·0	100·0	100·0	137·0	145·0	145·0	.
	Canada	5·2	4·6	4·3	5·3	5·4	5·1	—5·6
	Mexico	..	2·5	4·0	4·7	5·0	5·0	..
	United Kingdom	12·4	14·2	16·5	25·0	24·0	23·0	—4·2
	France	1·3	15·7	13·0	14·0	14·7	14·2	—3·4
	West Germany	7·6	28·1	40·2	54·6	48·2	45·0	—6·6
	Italy	..	..	..	25·0	30·0	30·0	..
	Japan	..	6·3	21·6	25·0	31·3	34·0	+8·6
	India	..	3·0	..	16·0	15·0	16·0	+6·7
	Other countries	10·9	18·4	25·0	30·0	30·0	30·0	..
	TOTAL—I	157·4	192·8	224·6	336·6	348·6	347·3	—0·4
II	**Coinage :**							
	USA (a)	24·6	8·2	46·0	320·3	43·8	36·8	—16·0
	Canada	3·4	2·6	7·5	20·4	8·8	4·3	—51·1
	France	..	..	12·2	7·2	9·6	2·9	—69·8
	Italy	..	..	7·1	2·9	1·9	0·5	—73·7
	Japan	..	..	4·6	5·8	..	..	..
	Other countries	16·1	41·8	26·5	24·5	25·0	15·0	—40·0
	TOTAL — II	44·1	52·6	103·9	381·1	89·1	59·5	—33·2
III	Total world consumption of Silver excluding Communist countries (I+II)	201·5	245·4	328·5	717·7	437·7	406·8	—7·1

(*a*) Supplies of silver for coinage in the USA are obtained entirely from Treasury stocks and have never been part of market demand.

Source : The Annual Review of Silver by Handy and Harman.

consumed than mined every year; the shortage of this metal is therefore likely to raise its head soon unless steps are taken to reduce its consumption. One of the industries where sizable quantities of silver are consumed is photography. The discovery of a new photographic process which will not need silver will reduce the demand for this metal. Feverish efforts are currently being made in research laboratories in the USA to find photographic processes which either curtail or eliminate the use of silver.

Silver was without doubt a favourite of the speculators from middle of 1967 to middle of 1968 but the steep break in its prices since then has unnerved them and it is expected that for sometime to come, hoarding of silver in the world for quick profits will go out of fashion. The currency crises might sometimes revive interest in this metal but every time its price goes above $ 2.0 per ounce, the unloadings by speculators and the increased activity of producers are likely to depress its price.

Stripped of Pretensions

Mocatta and Goldsmid, one of the leading bullion dealers in London, have pointed out in their annual review of silver for 1969 that it "was finally stripped of its pretensions as a precious metal. Speculative activity has continued to dominate the market but it has been ruled by considerations of supply and demand rather than monetary irrelevancies." It has confirmed that the largest non-users, potential source for silver is the US coinage. Mocatta and Goldsmid have estimated that theoretically there are about 1,700 million ounces of silver in this form in the USA and although a considerable portion of it will never become available in the market, the coins will certainly have a decisive effect on the price of the white metal in the next few years. Mocatta and Goldsmid have also estimated that nearly 400 million ounces of silver are contained in dollar pieces which have become collectors' items and about 300 million ounces of silver has been lost, leaving a balance of 1,000 million ounces available for melting in the coming years.

Even though the silver markets of our country are isolated from the world markets since no imports or exports of this metal are allowed, yet fluctuations in international prices of this metal have a profound effect on its prices in our country. In early January this year when the New York price of silver was $ 1.81 an ounce (equal to Rs 485 per kg. at the official rate of exchange), the price in Bombay ruled between Rs 500 and 510 per kg. Obviously, the differential between world market prices and Bombay prices is not significant whereas in the case of gold, the difference is more than 100 per cent. Again, the peak price of silver in New York was recorded in July 1968 while the highest price of silver (Rs 633 per kg.) was registered in Bombay in September 1968. It is no secret that sizable quantities of silver were smuggled out of our country, despite the official ban, in exchange for gold or other luxury items such as nylon and watches. In order to curb the smuggling activity in silver, the Government of India promulgated an ordinance on January 4, 1969, which amended the Customs Act and required every person on the west coast of our country—50 km. inland from the coast — to declare his stocks of silver, bullion and coins exceeding Rs 15,000 in price and particulars of the place where such silver was kept. This had a healthy effect as the volume of silver smuggled out of the country was reduced, though not entirely eliminated. Silver hoardings in this country had been estimated by the Reserve Bank of India a few years ago at 5,000 million ounces: what proportion of this hoarding has been smuggled out during the last 2½ years is anybody's guess.

OECD Strategy of Trade Preferences

DR R. S. ARORA

THE MEMBERS of the Organisation of Economic Co-operation and Development (OECD) — rich nations' club — were scheduled to meet from October 27 to 29 last year at Paris to work out a scheme of generalised non-reciprocal and non-discriminatory trade preferences in favour of developing countries. At the eleventh hour the meeting was postponed indefinitely at the instance of the United States. The developing countries have obviously watched this development with grave concern since they view this yet another blow to their cause in the context of many other recent retrogressive trends in the field of trade and aid.

The report of the World Bank for the year ending June 30, 1969, shows that contrary to earlier expectation that the developing countries' share in the world trade would grow, it has actually declined from 22 per cent in 1960 to 20 per cent in 1968. The promise of the developed countries to provide a better access to exports from the developing countries thus remains far from being fulfilled. The developing countries have been struggling for several years for an adequate share in the world trade.

At the eleventh hour of the New Delhi round of the United Nations Conference on Trade and Development a resolution on preferential or free entry of exports of manufactures and semi-manufactures of developing countries was adopted on the basis of the draft submitted by the Group of 77 (the developing countries). The resolution unanimously adopted by the conference recognised that the OECD document on the subject, adopted in November 1967 (TD/56) marked a major change in commercial policies as between developed market-economy countries and developing countries.

At UNCTAD-I, all the developing countries unanimously supported the idea of tariff preferences, but the US delegation adopted a position of adamant opposition to the demand of the less developed countries. The reasons underlying American opposition to or scepticism about the desirability and probable contribution of preferences to the development of the less developed countries were thought to be of two broad sorts : administrative-political and economic. The official US stand on this subject was subsequently reiterated by official spokesmen and defended, supported, or rationalised, at least in broad terms by experts.

In the intervening period, however, one detects a certain convergence of the two positions, with the developing countries displaying a livelier sense of complexity of the technical and policy issues involved, and the developed countries, on their side, showing a greater willingness to reconsider their stand on the subject. Perhaps, on second thought the developed countries realised that aside from political advantages, the liberalisation of trade might also bring long run economic benefits to the industrial countries since it would permit an increase in the developing countries' output of sophisticated products in whose manufacturing they have a comparative advantage. At the same time they realised that the transitional difficulties associated with such a shift could be mitigated if the liberalisation of trade was undertaken in gradual fashion.

In a speech in November, 1966, Mr Anthony Solomon, the American Assis-

tant Secretary of State for Economic Affairs, posed the issue as follows : "Does equal treatment for all make sense when the competitive strength of infant industries in the poor countries is obviously no match for long-established mature industries in the developed countries?"

At Punta del Este in the spring of 1967, President Johnson announced a more flexible US policy on this subject: "We are ready to explore with other industrilised countries — and with our people — the possibility of temporary preferential tariff advantages for all developing countries in the markets of all the industrialised countries." According to some reports, the United Kingdom supported this approach, but the Common Market countries, particularly France, favoured selective preferences favouring some less-developed countries (former African colonies) over others. Meanwhile, the Ministers of the OECD countries had increasingly recognised the desirability of arriving at some solution in the matter of preferences and in November, 1965, they had given a mandate to the OECD to formulate constructive and concerted policies for increasing the developing countries' export earnings.

Two Decisions

A well-documented report was submitted to the ministers for their consideration at a meeting in Paris on December 1, 1967. At that meeting, the ministers took two main decisions: firstly, they agreed that the broad outlines of the report should serve as a common basis for delegations of member governments at the second conference and in future discussions of the matter; secondly, they asked the OECD to continue its work after obtaining the views of the developing countries, since it would make no sense to introduce preferential arrangements which did not have the latter's support. However, the report was adopted as the guideline for New Delhi, but there was no ministerial discussion to find a line through the all-important points which the working group report had raised without supplying answers. It was on details that the ranks of rich countries had remained dangerously split, although they had accepted the idea that generalised preferences were a good thing.

While discussing the duration of trade preferences, during UNCTAD-II the developed countries suggested that the initial life-time of the scheme of preferences should be 10 years with a major review near the end of that period to determine whether the scheme should be continued, modified or abolished.

The developed market economy countries generally took the view that a procedure should be adopted within the system of preferences for phasing out the reverse preferences granted by some developing countries to some developed countries. They offered several reasons for this view and drew attention in particular to the domestic difficulties they would encounter in granting preferences to those developing countries which did not accord them equal treatment with other developed countries. On this issue some socialist countries of eastern Europe urged that the question of reverse preference should be resolved in accordance with general Principle Eight adopted at the First UNCTAD, which said:

"International trade should be conducted to mutual advantage on the basis of the most-favoured-nation treatment and should be free from measures detrimental to the trading interests of other countries. However, developed countries should grant concessions to all developing countries and extend to developing countries all concessions they grant to one another, and should not, in granting these or other concessions, require any concessions in return from developing countries. New preferential concessions, both tariff and non-tariff, should be made to developing countries as a whole and such preferences should not be extended to developed countries. Developing countries need not extend to developed countries preferential treatment in operation amongst them. Special preferences at present enjoyed by certain developing countries in certain developed countries should be regarded as transitional and subject to progressive reduction."

Parallel Action

Several developed countries stressed the importance of parallel action by the socialist countries of eastern Europe to promote the expansion of exports from the developing countries. This parallel action should provide equivalent increased opportunities for the exports of the developing countries to those provided by the developed market economy countries through the scheme of preferences. Several east European countries were found ready to grant tariff preferences to developing countries.

In the final resolution adopted on this subject, the conference first cited "the unanimous agreement in favour of the early establishment of a mutually acceptable system of generalised non-reciprocal and non-discriminatory preferences which would be beneficial to the developing countries," and the need for further intensive work on such a system. The conference then stated that the objectives of such a system of preferences in favour of the developing countries, including special measures favouring the least advanced among them, should be :

"(i) to increase their export earning;

(ii) to promote their industrailisation; and

(iii) to accelerate their rates of economic growth".

To this end, the resolution stated, the conference established a special committee on preference as a subsidiary organ of the Trade and Development Board, to enable all countries concerned to participate in consultations. The first meeting of the special committee should be held in November, 1968, and the objective should be "to settle the details of the arrangements in the course of 1969", the conference stated, noting "the hope expressed by many countries that the arrangements should enter into effect in early 1970".

Time Table for Offers

The United Nations Trade and Development Board had laid down a time table for this under which OECD countries were to transmit their offers to the UNCTAD Secretary-General by November last year, and the UNCTAD special committee on preferences and then the Trade and Development Board itself were to meet early in 1970 to settle the scheme. 'The Group of 77' fears that developments in Paris might seriously threaten a timely conclusion of negotiations on preferences.

In a report prepared for the first UNCTAD and reproduced in the 1962 UN *World Economic Survey*, (Part II, 1963) it has been noted that tariff rates in industrial countries tend to increase with the degree of processing and thus provide a disincentive to the export of goods at higher levels of fabrication by developing countries. The *Survey* adds that "the degree of progression of duties .. would be greater if the duties were related not to the total value of respective imports but to the value added in the manufacturing process concerned." Since then the findings of several specialised studies have provided support for the proposition that the structure of protection in the industrial countries is biased against the imports of manufactured and semi-manufactured goods from developing areas.

On the one hand, tariffs tend to rise with the degree of fabrication, on the other manufactured and semi-manufactured goods of interest to developing countries bear higher duties — nominal as well as effective — than the technologically-sophisticated products traded among the industrial nations. These studies also indicate that developing countries have advantages in producing standardised commodities which are

either labour-intensive or utilise domestic materials and do not require complicated technology and sophisticated managerial skills.

In view of the decline in the share of earnings of primary commodities in world trade, these commodities have to assume increasing importance in the exports of developing countries if they are to accelerate their economic growth. Accordingly, to conform to the changing pattern of comparative advantages and to contribute to the development process, industrial countries would have to equalise their trade barriers in a downward direction. These actions would make it possible for the developing countries to provide an increasing share of the imports — and the domestic consumption—of simple manufactures in industrial countries.

Non-reciprocal Preferences

During the New Delhi round of the UNCTAD several aspects of trade preferences were discussed in detail by the second committee. The committee agreed that a generalised, non-reciprocal and non-discriminatory system of preferences in favour of the developing countries which would assist the developing countries to increase their export earnings, and so contribute to the acceleration in their rates of economic growth, should be implemented as soon as possible. However, the committee decided that two questions be examined in some detail, namely the main elements of such a system and the time-table for future action leading to the early implementation of the scheme of preferences.

The representatives of the developing countries stressed that preferential treatment should be accorded to all manufactures and semi-manufactures, including processed and semi-processed agricultural and other primary products falling under Chapter 1-99 of the Brussels Tariff Nomenclature (BTN) with a bare minimum of exceptions which would be determined on a case-by-case basis. The developed market economy countries expressed the view that all manufactures and semi-manufactures on the basis of Chapter 25-99 of the BTN should be included in a scheme of preferences.

It was, however, agreed that *ab initio* exceptions from the preferential scheme should be kept to a bare minimum and that developed countries should not aim at a list of exceptions common to all of them. It was also generally agreed that any system of preferences would have to include a safeguard mechanism. The developed market economy countries referred to the alternative arrangements of a tariff quota-cum-adjustment procedure and of purely escape-clause action. It was pointed out that it had not been possible for these countries to agree upon one method rather than the other. Several conceptual and administrative difficulties inherent in the application of a tariff quota system were, however, admitted.

The developing countries, on the whole, reiterated their support for unrestricted duty-free entry for their products and in consequence expressed their support for an escape-clause system, despite its limitations.

During UNCTAD II, while the developing countries could agree to periodic reviews of the schemes, they pointed out the dangers of abruptly discontinuing the scheme. On the other hand, they emphasised that in the periodic reviews of the scheme an assessment should be made of the extent to which the least advanced developing countries had benefited from the system. The developing countries further emphasised that the general system of preferences should provide at least equivalent advantages to those developing countries enjoying preferences in certain developed countries. Yet it was acknowledged that as long as the details of the general schemes were not known, it would not be possible to assess to what extent the generalised system would provide such advantages. A number of developed market economy countries maintained that the general system of preferences should gradually absorb the existing preferences.

While some developing countries stressed that reverse preferences were a matter for the developed countries to decide upon, others felt that reverse preferences should be abolished, in particular since they concerned to a large extent the least developed countries and since they placed economic burdens upon such countries.

With regard to institutional arrangements, the developing countries felt that suitable machinery within the UNCTAD should be established to supervise and ensure the effective implementation of the scheme. But several western countries stated that it was not necessary to create new institutions to handle this matter; only existing facilities available within the UNCTAD could be utilised.

At first, sight it might appear that the final resolution adopted by UNCTAD-II was a far cry from the 17-point proposal put forward by the "Group of 77" and, the rich did not agree in substance to anything beyond the stand they had taken in December, 1967, at Paris at an OECD meeting. In my opinion the unanimous acceptance of the desirability of a general, non-discriminatory and non-reciprocal system of preferences in favour of the developing countries undoubtedly was of considerable conceptual importance.

The postponement of the OECD meeting must cause concern to the developing countries. These countries have reason to believe that the developments in Paris constituted the symptom of a deep malaise which is threatening to jeopardise the very basis of international co-operation for the economic development of developing countries — a very sad augury indeed for the second development decade.

WINDOW ON THE WORLD

German Economic Policy in 1970

ERHARD HAUBOLD

THERE IS a certain ebullience to be discerned on the West German economic scene, which anticipates the new year's prospects. Change is promised by the new government in office and by expectations of new links with the east.

The new government in Bonn took office last fall amid an economic situation that demanded prompt action. Of the four agreed politico-economic goals —stable prices, high level of employment, harmonious foreign relations and steady, appropriate economic growth—two were especially endangered. A persisting distortion in the international business situation brought with it a pressure on the stability of German prices. Since spring 1969, the overall demand had risen to boom-like proportions. More and more this demand was leading to economic stresses.

With the decision of October 24, 1969, to revalue the DM, a firm foundation was laid to return to a policy of stability. On the one hand, revaluation led to a diminished pressure in the form of excessive foreign demand, thus establishing a prerequisite for that domestic stability which the Law on Economic Stability and Growth sets as a goal. At the same time, the revaluation ended an international uncertainty about currency exchanges that had endured for some time. No longer is the Deutsche mark an object of speculation.

Improvement in Balance of Payments

The revaluation also enabled the government to contribute to an improvement in the international balance of payments and to strengthening the international monetary system. In choosing the revaluation rate of 9.3 per cent, Bonn did more than take into account the disparity that had developed in the course of time between domestic and foreign cost-price relationships. The rate also allowed for the fact that the price spiral abroad was continuing. That is, the new parity anticipated a certain degree of future international price rises.

Can the forces of the market by themselves on this firmer foundation provided by revaluation restore economic balance now? The balance would need to be characterised by stability without stagnation. Looking into 1970, the Economics Minister, Prof. Schiller, sees little likelihood that producers, taking into account new orders and a backlog, will have reason to complain of a lack of demand. However, economic growth will be more modest than in 1969, in which the real growth of the gross national product amounted to over 7 per cent.

Stock-taking by Industry

As a result of restrictions and monetary brakes that have been applied in recent weeks, industry will have to do a considerable stock-taking. Exporters will have to adjust prices or qualities to the sharp increase in the exchange rate of the DM. New taxation measures will have to be assessed. A question which is being asked in Bonn economic circles is: Will economic policies designed to stimulate internal spending and internal investment, succeed in channeling efforts and capital away from the export sector?

What is certain is that domestic demand in the closing weeks of 1969 had risen steeply, and the pressure on the labour market had increased accordingly. The German Labour Office at 1969-end, placed the number of foreign workers in West Germany at over 1.5 million, some 265,000 more than in 1968. Industry was undoubtedly experiencing a boom during the Christmas and New Year seasons; though figures have yet be known the impression is that West Germans have indulged in a major shopping spree.

The export sector too offers food for satisfaction. Recent discussions with the Soviet Union will lead to a major steel and pipeline deal benefiting this sector of business. The new government is also expected to increase its expenditures in the fields of development assistance. It has already allocated impressive credits for east European trade. A more liberal foreign policy being fashioned in Bonn promises to lift some of the restrictions on exports that the Hallstein doctrine tended to impose.

Fears that the economy may overheat if the present boom in production continues do nevertheless play on the apprehensions of business. Some aspects of the West German market strengthen this apprehension. There is a general rise of prices in west Europe as a whole, mainly caused by the presence of a sellers' market in an area of industry which has progressed mightily in recent years. This is the subcontracting sector where a large number of 'feeder' companies supply the big factories with their nuts and bolts as well as with such specialised components as pistons, brake equipment, electrical hardware and the like.

In these specialised fields, manufacturers catering to the industry as a whole are able to produce parts at prices defying the possibilities of individual firms. In the present boom even the feeder industries with their vast production potential have been unable to keep up with the demand. This has brought about inevitable delays in delivery and re-pricing. One large manufacturer of agricultural tractors has over 1,000 vehicles held up on the factory floor because of the inability of his subcontractor to supply him with gear boxes. The new year should here see a decision taken as to whether the industry is likely to decide upon large-scale investment in new plant, or whether caution will prevail and fears of overheating will lead to a new recession.

This is the imponderable that West Germany lives with today: a problem also present in other west European countries, but here rendered more acute by the peculiar circumstances which prevail. One might as a consequence hazard a guess. The barometer is leaning favourably towards the optimistic; and if this trend is translated into effective economic movement, West Germany may well be destined to experience an even more startlingly successful boom year in 1970 than in any of so far.

Multinational Companies

On the socio-industrial side, there are strong indications that the Federal Republic is moving strongly towards the corporate welfare structure fashionable in the USA. West Germany is in the full flowering of an era of big corporations. To certain extent the vast private business group with its corporate committee structure reproduces many of the aspects of government, and its co-operation with the political authority and trade unions brings a curious but effective blend of economic liberalism associated with private and state capitalism in its wake.

Thus, West Germany, on the threshold of the 1970s, sees a steady but sure disappearance of the old-fashioned family type business and its replacement by the new giant corporate structure. The mechanism of the change has taken

various forms. A dramatic incident was the change at Krupp's, Germany's most famous paternalistic family empire.

Under the Grand Coalition government the blend of socialist and CDU economic doctrine strengthened the move towards big mergers. State subsidies were withheld from the inefficient industries; that many of these were of the family type was significant but also incidental. Grants were channelled towards the efficient structures or were used to encourage mergers. The process was clearly evident in the aeronautical industry, in the electrical industry and in the small petroleum industry. During 1970 the application of this pressure towards incorporation should continue strongly.

In the wake of this development, an ever-increasing emphasis on forming truly multi-national companies can be observed. Cases in point are the Siemens group which has established already 90 plants in foreign countries and employs 60,000 personnel abroad. The BASF chemical group has acquired strongholds in the USA and other countries. And of Volkswagen's daily production of over 7,000 vehicles, more than 1,000 are being manufactured every day by its plants in Mexico and Brazil.

Indonesia on Road to Recovery

HARDEV SINGH

THE BUDGET for the year 1970-71 presented recently by President Suharto of Indonesia bears the stamp of the seriousness with which that country is making efforts to improve its economic condition. The budget outlines an expenditure of 161 million rupiah for development, which is nearly 31 per cent more than the provision made for similar purpose a year before. President Suharto also proposes to adopt measures that will encourage business activity in the country through increased savings. For instance, personal income tax, which currently ranges from 21 per cent to 60 per cent, has been proposed to be lowered to 10 per cent to 50 per cent. At the same time, exempted taxable limit has been proposed to be raised from an annual income of 24,000 to 48,000 rupiah. The maximum corporation tax is also to be lowered from 60 to 48 per cent.

In spite of these efforts to accelerate domestic investment considerable reliance has to be placed on external assistance. An amount of 134,000 million rupiah is expected to be contributed through foreign aid towards development budget, while domestic savings are likely to contribute nearly 37,000 million rupiah. This has been found necessary because Indonesian economy was in a rather bad shape between the years 1961 to 1966. Rampant inflation marred industrial activity in that country during these years and investible funds found their way into speculation. The last three years, however, have witnessed rapid recovery. Considerable stability has been achieved in prices, which increased during the first nine months of 1969 by just four per cent as against 85 per cent in 1968 and 635 per cent in 1966. This trend has largely been supported by the government's credit policy and good rice harvest. There has been increased production of petroleum and other basic minerals too and increased exploration and development have stimulated the economy.

The current budget coincides with the second year of Indonesia's first five year plan (1969-1974). Broadly speaking, the plan has modest objectives: the provision of food and clothing to its people, the improvement of infrastructure, the improvement of housing for the common people and the provision of more employment. In the field of agriculture, for instance, rice production is expected to reach 15.4 million tons by the end of the plan, about 50 per cent more than the 1968 crop. In fact the harvest of 10.7 million tons in 1968 was nearly 14 per cent more than in 1967. If this rate of increase could be attained and maintained, Indonesia will have its rice production increased well above the annual population growth of 2.3 per cent, which will be a major breakthrough from the traditional production lag. This has been proposed to be achieved through irrigation, cultivation of high-yielding varieties of rice and use of fertilizers and pesticides. Further, information on modern methods and planning to the peasants is to be a decisive factor in the success of the plan. Through these measures, 830,000 hectares of rice-fields are to be rehabilitated and another 460,000 hectares are to be brought under irrigation.

As has been pointed out, industry in Indonesia suffered substantially during the years of inflation, 1961-1966. Gradually, however, some rehabilitation was possible between 1966 and 1968; the present plan proposes to increase the industrial production in Indonesia by nearly 90 per cent over a period of five years. The industries which have been given priority include fertilizers, cement, chemicals, textiles, pulp and paper, pharmaceuticals, engineering and machine tools. The government proposes to invest nearly 110,160 million rupiah in industry, while banks and private capital are expected to invest nearly 140,500 million rupiah.

Major share of investment is likely to go into fertilizers, cement and chemical industries, which will involve an expenditure of 114,420 million rupiah. The fertilizer factory in Palembang is expected to have increased annual output of 400,000 tons while the petrochemical project at Gresik, which is to be completed this year, will produce annually 66,000 tons and 110,000 tons of urea and ammonium fertilizers respectively. Feasibility studies are being undertaken for the construction of a fertilizer factory using natural gas at Djatibarant in west Java. The construction of a superphosphate factory at Tjilatjap is also being contemplated.

Efficient Working

Indonesia at present has three cement factories, namely at Gresik, Indarung and Tonassa, with a total annual output of 615,000 tons, which is far below Indonesia's present demand. The application of more efficient methods in the three factories is exected to raise production to 850,000 tons towards the end of this year. Further, the feasibility of establishing a cement factory at Tjibinong in west Java, is being contemplated. When realised, it will be capable of producing 400,000 tons every year. The location for another cement factory is being considered, potential locations being, Bohorok and Atjeh, in Sumatra, Klaten and Pamotan in central Java, and Tjibadak, in west Java. By the end of this plan annual cement prduction is likely to move up to 1,630,000 tons. It has been pointed out that new units are proposed to be financed by domestic as well as foreign private capital.

Textiles industry in Indonesia produces weaving yarn which is just enough to meet half the capacity of spinning mills. The plan, therefore, proposes to reduce this discrepancy. In the initial stages, spinning factories are to be rehabilitated. There are at present 14 spinning factories, while two factories at Bekasi and Palembang are awaiting completion. The weaving factories have not been able to perform at full capacity because of high cost of electricity and the sub-standard quality of domestically produced weaving yarn. Through improvement and expansion the output of textiles is to be raised from 300 million metres to 900 million metres in five years. The investment plans include the rehabilitation of spin-

ning and weaving factories, expansion of spinning and finishing factories, and the modernization of weaving factories.

The present installed capacity of electric power in Indonesia is around 650,000 kw, all of which cannot be put to use for want of transmission and distribution lines. For instance, only half of the total power produced by the Djatiluhur multipurpose dam at present could be transmitted and distributed. The five-year plan proposes to add new power stations with a capacity of 360.000 kw. This means that considerable imaginative planning has to be done to distribute electricity to various areas by establishing new transmission and distribution lines. The infrastructure was neglected grossly during the last 20 years. Repair work and maintenance were far below the standard for lack of funds. Expansion, if at all, was negligible. It has been estimated that it will take nearly 10 years to catch up with the overdue repair and rehabilitation work alone. Bad condition of roads, 70 percent of which are virtually unfit for use, has led to a considerable over-crowding of railways. With the bulk of its rolling stock more than 40 years old, even railways can hardly cope with the increasing pressure on transportation. The plan, therefore, proposes to increase the carrying capacity of railways from the present 75000. km per day to 93,000 km by 1973. For this the railways urgently require new rolling stock, new tracks and sleepers and better bridges.

Clients for Common Market

E.B. BROOK

VIENNA:

IF THE subject discussed most frequently in European economics is the Common Market it is no more than an indication of the overwhelming presence it has developed on the European scene.

The Soviet Union's anger at the prospect of Britain at last being admitted to membership of the Market reveals that the cold realists of east Europe see the Market externally for what it really is—a protective, defensive and, when necessary, aggressive union of west European states. The Soviet Union may be deliberately propagandist in suggesting that this defensive-aggressiveness of the Market is directed mainly against east Europe for, to no small extent, the Market has also an anti-American tinge and traders from other parts of the world know well that its tariffs and protective rules border on the hostile.

The alleged anti-communist slant of the Market has not, incidentally, prevented East Germany from absorbing, through its "inter-trade" with West Germany, many of the fiscal benefits of the Market nor has it deterred much less orthodoxly-communist Yugoslavia from arriving at agreements with the Brussels Commission over such matters as terms for the export of Yugoslav beef and veal.

If the east European group of Comecon can manage to modernize its attitudes and methods it would not be surprising if one day the two European economic mammoths might make a deal. The probability of this event would be increased if the current discussions between the USA and the USSR on strategic armaments produce reassuring results and, especially, if a European security conference, including the USA and Canada, is ever held with a constructive outcome.

But in the meantime, while the much quieter European Free Trade Association contemplates its disintegration or absorption and steadily builds its trade, the Common Market holds the stage with Comecon running a much less agile show in the east of the continent.

The latest Market developments take two directions, the Barre plan for monetary co-operation between members and a spate of negotiations with non-member countries which should lead to important trading agreements this year. Many of these agreements will be of a preferential type, which means that they will be carefully observed by the USA which has given clear signs of being increasingly worried by the Market's trading policies.

American trading companies are disturbed over the reverse preferences granted to the Common Market by countries in Africa and the Middle East. They fear these reverse preferences may disrupt the market for American exports. The US government shares the view now coming to be more widely held that within a foreseeable time, Europe will be divided between the Market and Comecon with unpredictable effects on economic and political groups elsewhere, not least in the USA.

Washington is so nervous of this mid-term prospect that its representatives at GATT (the General Agreement on Tariffs and Trade) in Geneva can be counted on to watch very carefully the terms of the new agreements the Market will be signing with non-members this year. According to the GATT rules preferential agreements can be signed only if they lead to free trade or to a customs union between the parties concerned "in a reasonable period of time." If the Market's agreements with non-members can be construed to break this rule the USA can be counted on to make this construction.

The Market has ten states seeking forms of non-membership trading agreements with it. The most important are Israel, Spain, Austria, the UAR and Turkey; others with Argentina, Lebanon, Japan and Malta are in the exploratory stage and Yugoslavia is seeking to broaden the guarantee for its beef exports.

With Israel the preferential agreement will have a first stage of five years in which tariff cuts of about 45 per cent will be made by the Common Market. Israel evidently hopes that this Market concession will provide the first step to its full association with the Market.

Agreement with Spain

The approaching agreement with Spain will probably be for a term of six years in the first place during which the Market will make tariff cuts of 60 per cent on Spanish industrial products. The Spaniards may be content to progress from this position to a form of association but their aim is undoubtedly full membership of the Market.

The United Arab Republic is fairly far advanced in its application for a preferential agreement and Turkey is expected to move from its present "preparatory" stage to a "transitional" stage in its association agreement. The position of Austria, which has been having talks in Brussels for five years, is peculiar because of its neutral status which is guaranteed by the Soviet Union as well as by the USA. Britain and France. Because of this, the Austrians made no progress with their request for association with the Market but are likely to be successful with their present modified application for a preferential trading agreement. If successful, Austria would withdraw from EFTA.

Potentially the most important of the completely new negotiations will be that between the Market and Japan. In this case the Market is sending an emissary, its Commissioner responsible

for External Trade, to Tokyo next month to arrange for negotiations beginning in August. on a trade agreement. Malta is seeking association and the Argentines and the Lebanese preferential agreements.

The direct ramifications of the Common Market are thus rapidly ceasing to be exclusively European and becoming worldwide, a development in which it is moving far ahead of EFTA and becoming more significantly international than Comecon. While the latter is composed exclusively of communist states the Market is proving itself capable of associating or reaching working agreements with countries so diverse in political attitudes as Spain, neutral Austria and communist Yugoslavia; its formal agreements will reach to four continents, including the existing close membership relations with a number of African states.

It is not surprising, for this reason, that the Soviet Union feels some alarm at the possibility of further significant widening of this increasingly international organisation or that the USA regards it suspiciously as an enterprising challenger in many of the world's new markets. How far GATT will be able, if called upon, to control the Market's growth and international relations remains to be seen.

Inflation in US Slowing

GERARD A. DONOHUE

WASHINGTON:

WHILE MOST economists— in government, business and the universities —believe that, in general, the government is taking the right actions to slow down inflation, some believe it should crack down even harder, while others believe it has already gone far enough and should ease monetary restrictions.

Economic indicators that have been slanting sharply upward for the past few years have turned down, or at least flattened out, and the pace of business has definitely slowed down — the government's goal. But prices have continued to rise. This past year they rose by six per cent, and even the most optimistic forecasts do not see the rate of increase for 1970 dropping much below four per cent.

As the government sees it, the policies of keeping taxes up and spending down, while holding back on the flow of new money into the economy, is working just about as predicted. The economy is gradually slowing down without a risk of recession.

But the time to ease up is not yet here, for the war against inflation has not yet been won. One of the toughest battles is convincing businessmen and consumers that the government is determined to win even if it means continuing unpopular restrictive policies.

Economists of the monetary school who believe that expansion or contraction of the money supply has a powerful effect on economic activity hold that if the money supply is not eased soon the United States is certain to have a mild recession six to nine months from now. They reason that it takes that long for decisions made now to produce results.

Equally distinguished economists believe just the opposite. They theorize that businessmen are only waiting for monetary restraint to be eased, at which time they will invest heavily. Their argument is somewhat strengthened by Congressional action to reduce taxes and increase spending.

They predict the government surplus this fiscal year ending June 30 will be smaller than expected and that next year government spending will rise considerably. Thus fiscal policy will be promoting rather than combating inflation. Some would have the government risk a recession and accept increased unemployment.

A few economists and businessmen have proposed wage and price controls, but the administration has strongly opposed such measures on the grounds that they would not really halt inflation but produce further strains and distortions and would be very difficult to enforce equitably.

The President was very unhappy about the Tax Bill and increased expenditures voted by the Congress. It was reported that he is considering proposing taxes be raised on such items as alcohol and tobacco and postponing reductions on automobiles and telephone service.

For without a surplus in the budget, or at least one in balance, the government will not be soaking purchasing power out of the economy. It will be competing with private buyers for goods and services and, if in deficit, it will have to borrow on the private market, intensifying pressures for funds there.

Adding further to the difficulties of making any sort of prediction is the outcome of labour-management wage negotiations this year. Several of the largest labour unions are determined to get large pay increases to make up for the rise in the cost of living. Management, facing lowered profits and increased competition, wants to keep wage increase to a minimum. Large wage increases could lead to fresh inflationary pressures, while lowered corporate profits or lengthy strikes could seriously cut into government tax revenues.

Inflation has been costly to the American people. In many industries workers have found prices rising faster than wages. High interest rates have made it difficult for many to obtain financing for new houses. Cities and states have been unable to obtain funds for needed services.

Correcting inflation has also been costly. The rate of growth of the economy was probably three per cent last year: the forecast is for about two per cent this year in real terms. This is not enough to keep up with the rising population and demands of citizens for improved transportation, housing, medical care, schools and social services.

But almost everyone agrees that inflation must be slowed down significantly if the United States is to preserve the value of its currency and lay the base for orderly growth and development.

The moving finger writes

THE NEW year has not begun badly. It is a great thing, indeed, that one of the bloodiest civil wars of history has ended within the first few weeks of 1970. In terms of sheer destruction of human life and human values the civil war in Nigeria was nearly as obscene and outrageous as the war in Vietnam which, unfortunately, is raging still. I may be inclined to concede that the unity of Nigeria is a worthy enough cause and that a strong and prosperous Nigeria, rising above its tribal divisions, could vastly assist in modernising social and political institutions on the African Continent and thereby make the states of 'Black' Africa in particular a contemporary of other communities and governments in a world now moving from the twentieth century into the twenty-first. Even so, an intolerable price has been paid for the survival of Nigeria as a federal polity and this price, as so often happens when military solutions are sought, had to be paid, in the main, by those sections of the affected populations who perhaps had the least say in the matter. The Ibos and their allied tribes in short-lived Biafra had fought with a valour which had exacted admiration from a cynical world and their women and children have paid in blood, tears and, above all, stark hunger a toll which has become an ugly burden on the conscience of the human race. Hence it is that we may welcome with unalloyed relief the ending of this outrageously destructive conflict, although it has ended only when the dreams of a brave community, stubbornly resolved to pay for its dreams, have been finally shattered on the field of battle.

As so often happens on such occasions, the Nigerian war has left memories which may not easily heal. Outside of the parties immediately and directly engaged in it, the most to suffer in reputation was the United Nations as an institution and U Thant as its Secretary-General. The charge against it is not that it failed to prevent this war. Its real sin was that, throughout, it both felt and acted helpless even in mitigating the barbarities of this war as it was waged against the women and children of besieged Biafra. It just would not do for U Thant to plead that the governments of the USSR, the United Kingdom or other countries were supplying munitions or other destructive facilities to one or the other of the combatants or that the United States had chosen to remain largely indifferent. It is in circumstances such as these that the United Nations is intended to speak and act, at least within its organisational limitations, as the conscience of the world. It must be said to the discredit of the Secretary-General and his advisers that they have failed the world community in this elementary obligation they owe to it.

I believe that it is not pointless to indulge in such recriminations against the United Nations or its Secretary-General because it is just possible that they can be shamed into making amends for their lapses and failures in the past. For, amends can still be made. Although Gen. Gowon, the Head of State, has said that it would be the policy of the Federal Government of Nigeria to go all out to provide relief to and bring about the rehabilitation of the starving Ibo and other tribal communities of northern Nigeria, the tribal passions aroused by the civil war have been such that it would be foolish to expect that the conquerors would become generous or even tolerant overnight. In the circumstances, it is the clear duty of the United Nations and its Secretary-General to organise the forces of world opinion for the task of ensuring that the conquered communities are not required to endure any post-war misery for a day longer than is strictly necessary.

U Thant, I am glad to see, has not been altogether inactive in this respect, but I would certainly assert that it is not too much to expect of him that he ought to impart some real passion into what must be his first and foremost mission which is to see that the United Kingdom and the USSR in particular, as well as all the other prominent members of the United Nations, including the United States, persuade the Federal Government of Nigeria to invite them to organise succour to the conquered communities and co-operate fully with this international effort without any consideration of national prestige or other unworthy calculations.

Our Embassy in Washington is, whether Mr Dinesh Singh likes it or not, the most important foreign post in the keeping or the giving of the Government of India. Ordinarily, it should be filled by men who have an outstanding record in our public life or men who are of high stature in our political life. At about the time India became independent there were quite a few people of that calibre around. This was due partly to the ennobling influence which Gandhiji had on his human environment and partly to the liberal traditions which informed so many of our public men and business leaders of the era of India's political and economic renaissance in the inter-war period.

Today, in the 23rd year of our Independence, the number of people who could be readily thought of for high public office at home or abroad has become very small indeed. Some perhaps may be inclined to blame the late Jawaharlal Nehru for this as for so much else which is disturbing and dissatisfying in the contents or quality of society these days. Mr S. K. Patil, indeed, had once spoken of the public personality of Jawaharlal Nehru as a banyan tree beneath which no vegetation could or would grow. Whatever may be the validity of this criticism of Nehru, the fact remains that the ranks of wise and generous men in our public life have been steadily depleted over the last 20 years and are not being replenished. Even so, it could not have been altogether impossible for the Prime Minister to have drafted a suitable Ambassador for Washington from the eminent men who are still to be found in our public life. But, then, Mrs Indira Gandhi's recent record has not been conspicuous for any commitment to the maintenance or promotion of the quality of India's leadership, at home or abroad.

Once a public man or a politician of sufficient calibre was not thought of for the ambassadorship to the United States, the wisdom of selecting a man of the background and accomplishments of Mr L. K. Jha would become more or less obvious. To the extent that a good part of our relations with the United States is or should be a matter of mutual understanding and co-operation in the area of American assistance, whether government or private, in India's development effort, there is little doubt that Mr L. K. Jha's tenure in Washington would be a successful and even memorable one. In this sense, Mrs Gandhi certainly deserves to be complimented on thinking of him for the assignment in Washington. It is, therefore, all the more regrettable that the appointment of Mr Jha to the ambassadorship of the United States has been made in a context or in circumstances which have given rise to the justifiable impression that the main reason for the Prime Minister's decision is that neither is she happy with Mr Jha at the Reserve Bank, nor is Mr Jha happy to be at the Reserve Bank after Mrs Gandhi's political decision to scrap social control of banking in favour of nationalisation.

There has been a spate of speculations in the press about who is likely to succeed Mr Jha at the Reserve Bank. Although the orderly management of nationalised banking will be one of the very important responsibilities of the Reserve Bank, it is obvious that its Governor should essentially be one who is competent to advise the government on the larger issues of monetary and credit policies and even fiscal policy. Mr Morarji Desai, when he held the Finance portfolio, unnecessarily complicated matters by stating publicly that it was the policy of the government not to appoint an official as Governor of the Reserve Bank in the future. Should the Prime Minister, who now holds the portfolio of Finance, desire to exploit Mr Desai's statement for her own purposes, she would, no doubt, be able to make a political or semi-political appointment. Some of the names most frequently bandied about in inspired reports have certainly not been such as to prompt confidence in the Prime Minister's good faith.

Some time ago, Mr R. K. Khadilkar chose to proclaim that the central government would nationalise in due course the banks still functioning in the private sector. Editorial writers in many newspaper offices evidently thought that it would not be a bad thing to remind the Minister of State in the Ministry of Finance that he owed it to his office to observe a certain discipline in his public utterances. Hence a spate of exhortations to the Minister not to exceed his brief. Since Mr Khadilkar is nothing if not irrepressible, this has merely meant that a certain amount of newsprint and other more or less scarce resources have been wasted. Mr Khadilkar has been at it again, declaring even more vehemently than before that it is the government's intention to take over what remains of the private sector in banking. Keeping him company, good or bad, is Mr Govinda Menon who, evidently, wants to hammer out for himself a socialist future which might redeem his ideologically or otherwise sinful past. The Law Minister, it would appear, will be able to sleep soundly only when general insurance has also been taken over by the government. In fairness to these Knights of Camelot (the Indira Gandhi version), I must add that they are only trying to live up to precedent. It may be recalled that Mr V. C. Shukla, Minister of State in the Ministry of Home Affairs, was publicly propagating the nationalisation of banking at a time when the government's official policy was still social control.

V. B.

Trade Winds

WEST GERMAN BUSINESS MISSION

ADDRESSING newsmen here last week after 10 days of talks with the representatives of the Government of India and various industrial organisations in the country, the leader of the West German business mission, Dr Hermann Abs, observed that his delegation was carrying "positive impressions" back home about our industrial potential and the scope for Indo-German economic collaboration. He explained that the visit of this mission was not expected to yield immediate results; nor any specific proposal of collaboration was meant to be discussed during the mission's sojourn in the country. The visit was primarily meant for discussions in order to impart to the two sides better understanding of each other's problems.

The scope for West German investments in India, Dr Abs said, was "pretty high" because of various reasons. These included : (*i*) the huge domestic market; (*ii*) the democratic set-up in the country; (*iii*) the encouraging pace of acquisition of skills by labour, technicians and managerial personnel; (*iv*) not too hard restrictions on foreign collaborations as is the case in some other developing countries; and (*v*) the growing export-consciousness on the part of the industry which implied consciousness about quality. Dr Abs, however, stressed that commitments made in an agreement ought to be honoured for the period the agreement was to be in force.

Asked whether his mission had expressed any misgivings about entering into long-term agreements with Indian industry because of the recent political events, Dr Abs replied in the negative. In this context, he drew attention to the political situation in his own country where "one wing" was under communist rule, and observed that there was still no hesitation on the part of US investors to come to West Germany to set up new industries.

Answering another question, Dr Abs gave the impression, however, that he would like us to harp less on our socialistic professions. The West German government, he pointed out, was also socialist, yet it had accorded a prominent role to free enterprise. West Germany, he claimed, had a very big public sector too.

Referring to exports of Indian goods to West Germany, Dr Abs emphasised that what mattered was that the products ought to be competitive, both in quality and prices. This applied equally to all products whether they were manufactured with German collaboration or otherwise

In the discussions the West German mission had with the Federation of Indian Chambers of Commerce and Industry, Dr Abs is understood to have welcomed the suggestion of the FICCI that an Indian delegation should visit West Germany for detailed discussions on collaboration offers.

During a private meeting with Dr Abs, the Prime Minister, Mrs Indira Gandhi, is understood to have told him that whatever difficulties might arise in fostering Indo-German collaboration, could be sorted out.

Inquiries show that the various restrictions on equity participation by foreigners in joint ventures here, import of technology, rates of royalty payments, etc., were appreciated by the West German mission. Some misgivings were, however, expressed in regard to the period for royalty payment, especially in cases in which research expenditure on the development of technology was large. The Government of India representatives assured the mission that such cases could be dealt on merit.

LUBE INDIA

The Vice-President, Mr G. S. Pathak, will formally switch on stream on February 12 the first lubricants base stock producing plant on the West Coast—that of Lube India Ltd. Although this plant is scheduled to turn out production at the rate of 50 per cent of its rated capacity (164,000 tonnes) in the first year, 75 per cent in the second year and 100 per cent in the third year, full production may be achieved well ahead of the target date—possibly by the end of next year itself. This year, the plant is expected to produce 120,000 tonnes of base stock.

Situated on a 60-acre plot in the Trombay area adjacent to the Esso refinery from where it will draw its feedstock—reduced crude—the project, when in full production, will meet between 25 to 30 per cent of the country's requirements of lube base stock and will help in saving annually approximately Rs 6·3 crores worth foreign exchange.

Lube India is the outcome of an agreement signed between the Government of India and Esso, practically on the same pattern as the Oil India agreement, except that it does not provide for any guaranteed dividend to the two equal partners in the venture. The chairman and the financial director of the project are to be government nominees; the managing director is to be an Esso nominee.

The foreign exchange component of the project's cost has been financed partly through Esso's contribution to share capital (Rs 2·4 crores in dollars) and partly out of the Rs 5·6 crore dollar loan arranged by Esso with the Manufacturers Hanover Trust Company. The rupee component has been financed to the extent of Rs 2·4 crores from the equity share of the Government of India and to the tune of Rs 6·4 crores from the USAID under the Cooley Loans scheme. The two shareholders have been advised to advance Rs 60 lakhs each to meet further requirements, if any. The authorised capital of the project is Rs 5·6 crores.

The products of Lube India will be shared equally by the Indian Oil Corporation (IOC) and the Esso's marketing organisation in India. They will be blended by these two parties before being marketed to the consumer. The supplies will be effected to IOC and Esso's marketing company at import parity.

Most modern in design and equipment, it will have on its roll only 120 persons, of which nearly 80 will be technicians. The men who will run Lube India have been given thorough training in all operations of the plant. The organisational structure of the company is based on the concept of "polyvalence" which represents a departure from the conventional ideas of the manpower organisation. The aim is to develop and train technicians to handle all jobs pertaining to skills such as related to instrumentation, welding, electrical machines, process operations, etc.

The actual cost incurred on the project is claimed to be nearly a crore of rupees less than the original estimate. The savings are said to have been effected, both in rupee and foreign exchange components, through strict cost control measures.

The entire loan secured for the venture is expected to be liquidated by the end of the seventies.

BUSINESSMEN'S MEET

Speaking as the chief guest at the Gujarat Business men's Convention, recently, Mr Bharat Ram complained of too much concentration at the decision-making level in the country. He said: "The aim should be to get the maximum results from all productive agencies—big, medium and small—and through widening opportunities for new entrants. Mr Bharat Ram recommended a two-fold programme to get the maximum results from all productive agencies. A selective scheme of incentives to facilitate the entry of new entrants in business and to assist the smaller establishments to grow up as viable units should be adopted. Secondly, the programme should be to allow the so-called bigger units to freely function as it will help not only the growth of small industries but will also help the economy develop quicker into a technologically mature state . Inaugurating the convention, Mr D. C Kothari, Vice-president of the Federation of Indian Chambers of Commerce and Industry, outlined the dynamic role for industrialists, if they could provide their experience to the villages surrounding their factories and help organise them into a new pattern of life. Mr Kothari added that the technical staff of industrial establishments could help villagers in organising their trade and providing marketing facilities. He suggested to develop hybrid seeds and new methodology to improve the yields of cash crops like cotton, groundnut, linseed, various types of oilseeds and tobacco. The state Chief Minister, Mr Hitendra Desai, in his presidential address urged the organisers of the convention to produce a master plan of development where the needs of all classes of society could be focussed within the framework of integrated effort.

PAPER MILL IN KENYA

The Kenya government, the International Finance Corporation of Washington and Orient Paper Mills, are jointly financing the construction of a pulp and paper mill in Kenya at Broderrick Falls, near the Ugandan border. Construction of the plant, which will cost £12·5 million, is to begin in two months.

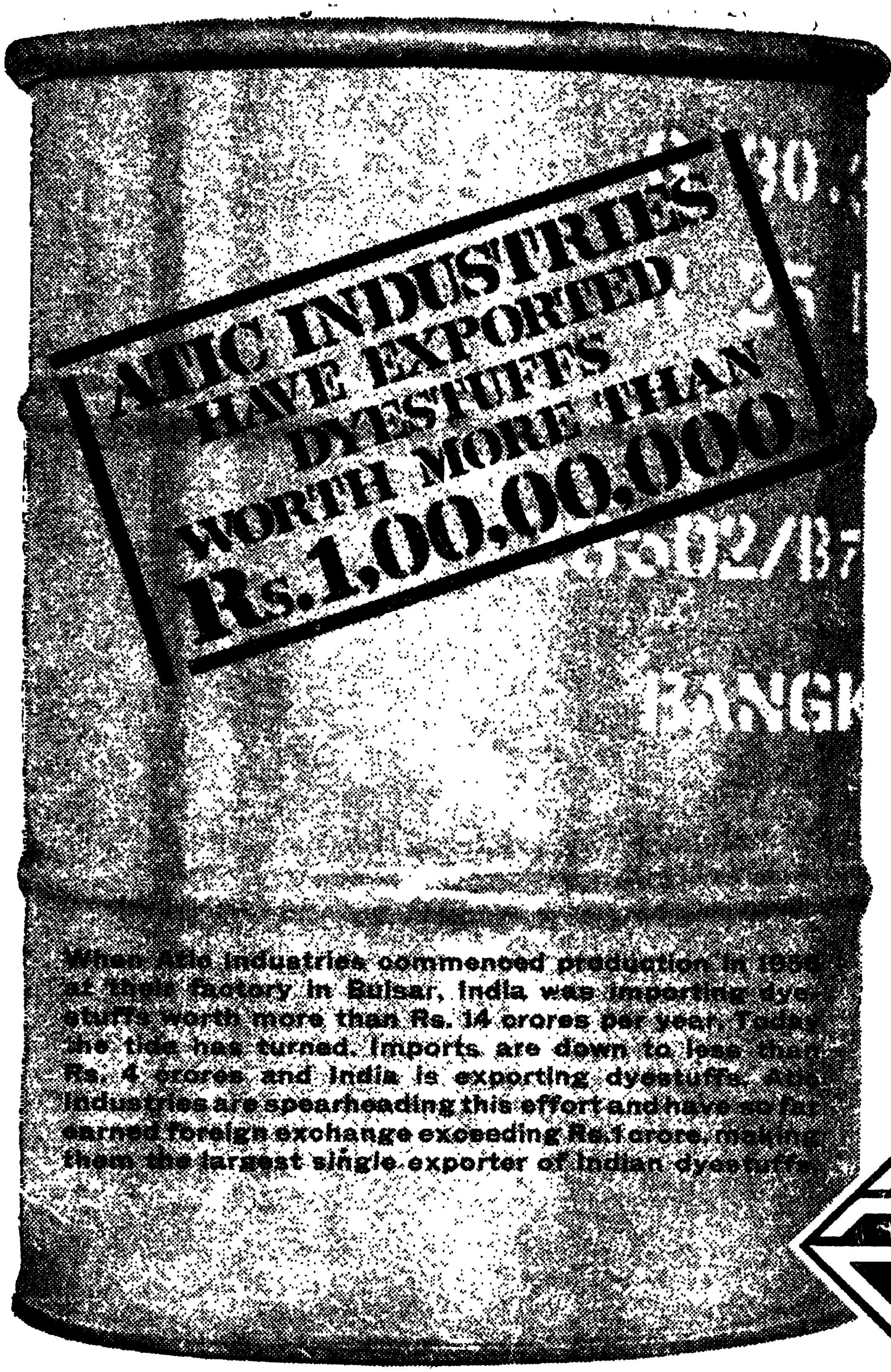
FOREIGN TRADE IN NOVEMBER

In November 1969, exports (including re-exports) from this country amounted to Rs 105·30 crores. Imports during the month were around Rs 105·99 crores, leaving an adverse trade balance of Rs 69 lakhs. The cumulative figures for the period April-November are :

	1968 April to November)	1969 (April to November)
	(In crores	of rupees)
Exports (including re-exports)	913·78	921·79
Imports	1242·99	1008·41
Balance of trade	—329·21	—86·62

TRADE WITH NEPAL

Indo-Nepal trade talks were held recently in a friendly and cordial atmosphere and a formula for handling the import of items like synthetic fabrics from Nepal had been evolved which was an improvement upon the agreement reached in November 1968. It was the understanding that this formula would be examined in Kathmandu and further talks resumed early in February. In regard to exports of raw jute from Nepal, it has been pointed out


ATIC INDUSTRIES
HAVE EXPORTED
DYESTUFFS
WORTH MORE THAN
Rs.1,00,00,000
BANGK
When Atic Industries commenced production in
at their factory in Bulsar, India was importing dye-
stuffs worth more than Rs. 14 crores per year. Today
the tide has turned. Imports are down to less than
Rs. 4 crores and India is exporting dyestuffs. Atic
Industries are spearheading this effort and have so far
earned foreign exchange exceeding Rs.1 crore, making
them the largest single exporter of Indian dyestuffs.

that the government had been and would continue to provide transit facilities for the export of raw jute of Nepali origin in conformity with the Indo-Nepal Treaty of Trade and Transit. This country would also be prepared to consider any difficulties that Nepal may have with the export of any individual commodity of Nepali origin. It has been denied that there was any new proposal from the government to levy any duty on products made out of the Nepalese raw materials. It was explained that there was no excise duty collected in this country on any exports from Nepal of products made from Nepalese raw materials if Nepal had levied duties in accordance with the agreement between the two countries.

INDO-BURMA TRADE

The union Minister for Foreign Trade, Mr B.R. Bhagat, had a meeting recently with Gen. Ne Win, Chairman of the Revolutionary Council of Burma while he was here. The expansion and diversification of trade between the two countries was discussed and Gen. Ne Win is understood to have expressed satisfaction over the increase in trade between the two countries in 1968 and 1969. He expressed the hope that this would be further expanded and diversified in future. Gen. Ne Win is understood to have agreed to a proposal made by Mr Bhagat that an Indian delegation should visit Rangoon at an early date for detailed discussions in this regard. The suggestion about the State Trading Corporation opening an office in Rangoon is also understood to have been favourably received by Gen. Ne Win.

IMPORT OF SOYABEAN OIL

Several steps have been taken by the government to ease the situation regarding edible oils. Arrangements have already been made for importing 60,000 tonnes of soyabean oil and the supplies are expected to start arriving within six to eight weeks. In addition, there are bright prospects of procuring from abroad 1,25,000 tonnes of this oil during 1970-71. Arrangements have also been made to import from Canada 25,000 tonnes of rapeseed. In the eastern region of India, the oil from this consignment will supplement the available stocks of mustard oil, for which it is an acceptable substitute. This country will also be importing 24,000 tonnes of tallow within the next few weeks and the plan is to get an additional quantity of 1,20,000 tonnes of tallow during 1970-71. Some amount of liquid and hydrogenated groundnut oil is now being utilised by the soap industry. When tallow becomes available, this quantity of edible oil too will be available for consumption.

EXPORTS OF WAGONS

The State Trading Corporation is increasingly exporting railway coaches to developing countries by successfully competing against advanced countries in global tenders. Starting with two bogies for export to Burma in 1967, the Integral Coach Factory is shortly to complete an order for 100 bogies for export to Taiwan, estimated to cost about Rs 21 lakhs. This is the first time that Indian bogies will be going to that country. All the bogies will be shipped in one lot to Taiwan. Another export order for 50 bogies to Thailand is under execution. The factory's annual output is about 650 coaches and is planned to be increased to 750.

VEGETABLE OIL PRICES

In view of the steep increase in groundnut oil prices in the last few weeks, an increase of 25 paise per kg. in the prices of vanaspati has been allowed in all the zones. The revised prices, which take effect from January 23, 1970 have been notified by government under the Vegetable Oil Products Control Order, 1947, separate prices being fixed for sale by producers, wholesalers and retailers. The maximum retail prices of vanaspati in the different pack-sizes, and when sold loose, exclusive of sales tax and other local taxes, will be as under :

Zone	16·5 kg. (Rs)	4·0 kg. (Rs)	2·0 kg. (Rs)	Loose per kg. (Rs)
North	80·15	21·14	11·03	4·86
South	79·90	21·08	11·00	4·84
East	80·54	21·24	11·07	4·88
West	80·61	21·25	11·08	4·89

GOA FERTILISER PROJECT

Mr Dayanand B. Bandodkar, Chief Minister of Goa, performed on January 22 the "Bhumi Puja" of the Rs 56% crore Goa Fertiliser Project at Sancoale, about 23 kms from Panaji. The project, started by the Zuari Agro Chemicals Limited with technical and financial collaboration of the United States Steel Corporation, consists of a modern integrated fertiliser complex with all the required auxiliary and ancillary facilities to produce 220,000 tonnes of ammonia, 340,000 tonnes of urea, 160,000 tonnes of granulated compound fertiliser per annum and 1,500 kw captive power to minimise adverse effects of breakdown in electric power.

PULP PLANT INAUGURATED

The pulp plant of South India Viscose Ltd, Coimbatore, was inaugurated recently, by Mr Ujjal Singh, Governor of Tamil Nadu. This Rs 12·40 crores plant will produce pulp for staple fibre and rayon production. The present capacity of the factory is 60 tonnes per day with potentialities for expansion to 120 tonnes per day. When the factory goes into production it will save foreign exchange of the order of Rs 4·5 crores every year. The company had obtained a loan of Rs 2 crores from Industrial Development Bank of India and raised Rs 3·5 crores from its internal resources.

DEMAND FOR FERTILIZERS

State governments have been requested by the union Department of Agriculture to take up promotion of fertilizer use on a campaign basis and draw up detailed plans of action for the purpose. While a three-fold increase in consumption of fertilizers has to be achieved during the fourth Plan, the consumption of NPK (nitrogen, phosphorus, potassium) in 1968-69 increased by only 14 per cent over the previous year and the kharif consumption during 1969-70 registered an increase of only 12·5 per cent over the corresponding kharif consumption in 1968-69, although during 1966-67 and 1967-68 the total increase in consumption was around 40 per cent. While it is recognised that the consumption of chemical fertilizers during 1968-69 and 1969-70 in some of the states such as Tamil Nadu and Rajasthan was adversely affected by unfavourable weather conditions, the need for a promotional campaign has been recognised for fulfilling the fourth Plan target. Several lines of action have been suggested by the union Department of Agriculture. The centrally sponsored scheme of national demonstrations visualises laying on fifteen demonstrations in each of the farmers' Training districts and five in each of the other districts. The state governments have been asked to supplement this effort by organising demonstrations on the balanced use of fertilizers over wider areas.

ASSISTANCE TO SMALL SECTOR

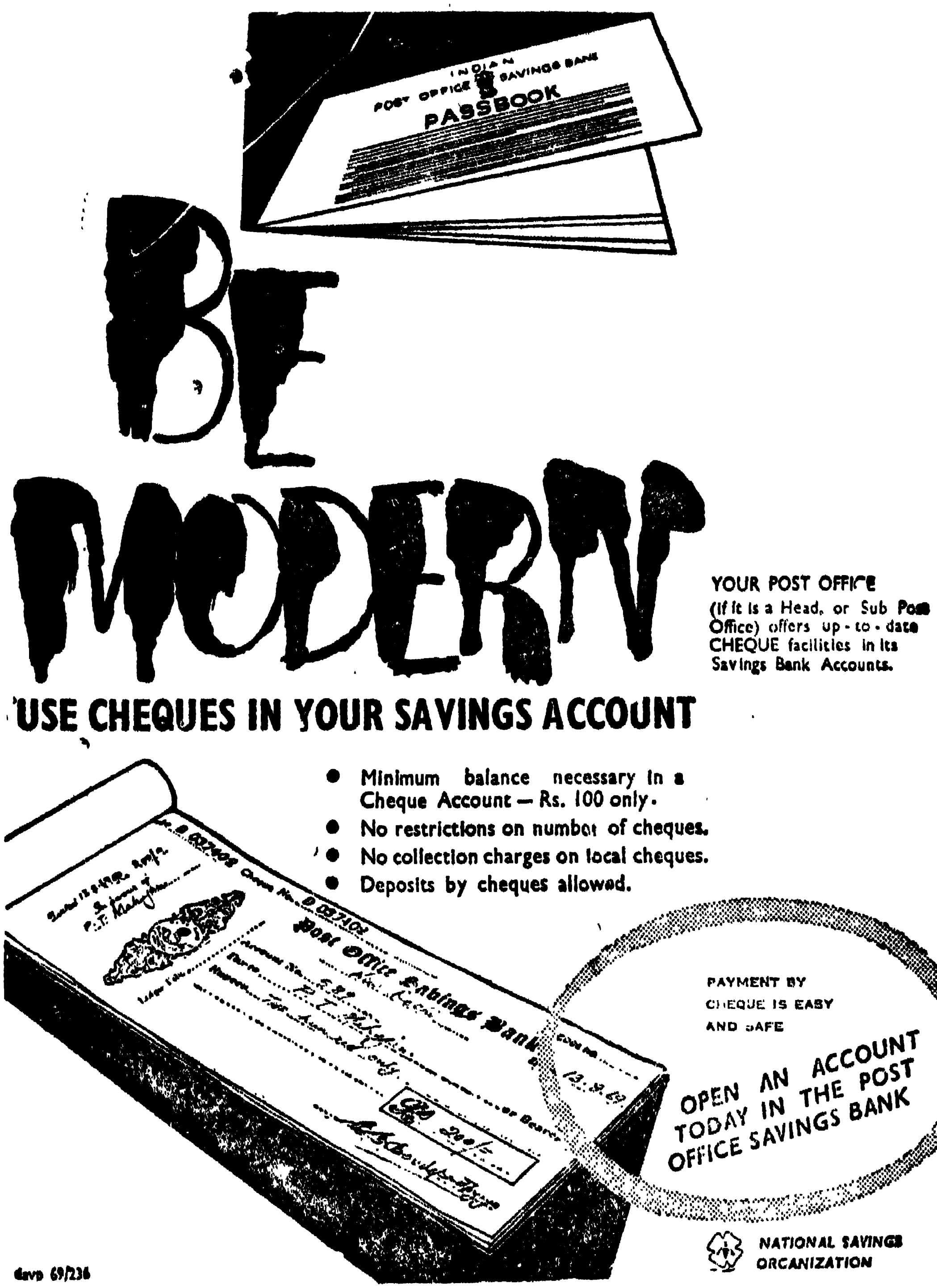
The National Small Industries Corporation has so far delivered to small-scale industries 20,349 machines valued at Rs 35·64 crores under the corporation's hire-purchase scheme. During 1968-69 alone, orders were placed for 2349 machines valued at Rs 3·73 crores. Out of this, 1824 machines valued at Rs 4·5 crores were delivered to small-scale units. The number of applications received during the year was 4101, out of which 2928 were received during the six intensive campaigns conducted by the corporation during the year in the less developed areas of the country, namely, Nasik (Maharashtra), Salem (Tamil Nadu), Srinagar and Jammu (J&K), Pondicherry and Gujarat. The payment of instalments has been affected by the recent recession in the mechanical engineering industry. The chairman of the corporation has requested state ministers of industries and directors of industries to help effectively in the recovery of instalments. The recovery of instalments would improve this year. Since the beginning of the year 1969, the corporation is paying greater attention to streamlining the internal working of the hire-purchase scheme.

VIJAYANTA TANK

The Defence Minister Mr Swaran Singh, stated recently that this country had achieved a major breakthrough in the field of military equipment by the manufacture of the Vijayanta tanks at the Heavy Vehicles Factory at Avadi. The Minister, who was speaking at the Consultative Committee of Parliament for the Ministry of Defence, stated that the government entered into an agreement with Messrs. Vickers Armstrong (Engineers) Ltd. of the UK in 1961 for technical collaboration in the design and development of a medium tank and for setting up a factory for its manufacture in the country. Subsequently, agreements were also concluded for the production of the engine, the gun and the gun-control equipment. The Vijayanta tanks now being produced at Avadi, the Minister said, were entirely a new equipment specially designed and developed to meet the requirements of the Indian Army. About 40,000 individual parts went into the manufacture of this tank, out of which nearly 50 per cent were being manufactured in the factory itself. In order to reduce the country's dependence on imported supplies, an all-out effort was being made to indigenise the Vijayanta components as early as possible. In the process of indigenisation the major contribution was from the ordnance factories. The ultimate aim in the manufacture of tanks, he added, was to achieve an indigenous content of 85 per cent. The other 15 per cent, which constituted specialised items, were not economically viable for indigenous production in view of the smallness of the quantities required. In such cases action was being taken to stockpile these items so that they did not become a bottleneck at any stage.

COLLABORATION WITH U.K.

The first meeting of the Indo-British Technological Collaboration Group is to be held here during the second week of February. The group will consist of three representatives each from government and from industry in both the countries. The first meeting will also be attended by the union Minister for Industrial Development, Internal Trade and Company Affairs, and Mrs Judith Hart, Minister for Overseas Development, acting on behalf of Mr Wedgwood Benn, Minister of Technology. The group will identify and review, from time to time, fields of manufacture where technological collaboration between Britain and India can be further developed. The committee will facilitate the direct negotiations between parties from both sides, particularly at the initial stages when broad areas of technical collaboration have to be identified together with the scope and nature of such collaboration. The group will also explore the possibilities of joint ventures relating to third countries, joint manufacturing programmes between industrial groups and companies in both countries. It will examine the scope of extending technological collaboration between industrial groups in the UK and public sector undertakings in India. The possibilities of close collaboration in industrial research and development will also be considered by the group. It will also periodically review the manner in which industrial and technological collaboration between the two countries can be made more fruitful to the mutual advantage of both sides.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Company Affairs

BIRLA COTTON

THE BIRLA Cotton Spinning & Weaving Mills Ltd signed recently an aggreement for the establishment of a new company, India-Malaysia Textiles Berhad, which will be the first major Malaysian-Indian joint venture to be set up in Malaysia. This 18 million dollars project is to set up an integrated textile mill which will produce suiting, shirting and dress material, made out of a variety of fibre blends. Agreements on the project were signed at the Malaysian Industrial Development Finance MIDF, Berhad building in Jalan Ampang, Kuala Lumpur, between representatives of MIDF, Birla Cotton Spinning & Weaving Mills Ltd, the Private Investment Company for Asia, and a consortium of Malaysian banks. A fifth partner not represented at the signing is the International Finance Corporation. India-Malaysia Textiles Berhad which has been incorporated in Malaysia will build and operate the mill at Mak Mandin Industrial Estate in Province Wellesley. The company has been granted pioneer status in principle by the government.

Under the agreements, Birla Cotton will provide a major portion of the company's equity and will be responsible for management. Its equity investment will be applied against the purchase of textile machinery manufactured in this country. MIDF's investment will amount to $3·25 million in the form of a long-term loan. MIDF will also underwrite a public share issue of 3·5 million one-dollar shares with the Private Investment Company for Asia, a mutli-nation investment corporation formed in March 1969 to promote and invest in private enterprises in Asia. Fifty-one per cent of the company's equity will be offered to Malaysian investors, and of this 10 per cent will be subscribed by MARA on behalf of Malay investors. The International Finance Corporation will invest $4·59 million, consisting of a long-term loan of $3·825 million and a share subscription of $765,000. A further $2·5 million will be supplied by a bank consortium made up of the First National City Bank, Bank Bumiputra, Malayan Banking and the United Malayan Banking Corporation. Including its investment in India-Malaysia Textiles Berhad, MIDF has so far invested nearly $16 million in 18 Malaysian textile enterprises with total fixed assets amounting to more than $51 million.

Construction work on the mill is scheduled to start in a few months' time and commercial production is expected to commence in early 1972. When fully operational, the mill will have a capacity to produce 7·3 million square yards of material a year which will largely replace imports. Its production will result in foreign exchange savings to Malaysia of up to $8 million annually. The plant's equipment will be designed to allow substantial flexibility for changing to other production lines as favoured by consumer demand.

A. C. C.

Mr N. A. Palkhivala, Chairman, the Associated Cement Companies Ltd, pointed out in a statement issued on the occasion of the annual general meeting of the company held recently that, the decision to decontrol cement after two decades of control was a well-considered economic decision in consonance with the recommendations of the Planning Commission and the broad policies of the government to relax controls wherever feasible. Under the conditions of control, he added, producers had no desire to expand and new cement factories are unlikely to come up in deficit areas. He stated that it was incredible that the government should have reversed its own firm decision at a time when there were surpluses of cement production. He made it clear that the cement companies did not want to make increased profits after decontrol and in fact had given the government an assurance that the selling price of cement would be so determined as to leave the companies with the same ex-works realisation of Rs 100 per tonne, as they have been receiving since April 1969

Mr Palkhivala stressed the fact that the Associated Cement Companies Ltd has, from its very inception, realised its obligations to the community and has kept in view its social responsibilities. The emphasis in production has always been on quality and it has always made available its products at fair prices. The company has also been operating welfare schemes for the villages around its works and has maintained demonstration farms where the benefits of scientific farming and improvements to cattle sheds have been on display. Expert advice on farming has also been provided. The chairman pointed out that on April 2 this year, the managing agents of this company will cease to operate and he expressed the gratitude of the shareholders to the managing agents, who have helped the company to grow from its capacity of one million tonnes in 1936 to 6·9 million tonnes in 1970. During this period the gross block has increased from Rs 6 crores to Rs 97 crores.

The expansion programme of the company in respect of its first phase has been completed, except for the grinding, blending and packing plant at Chaibasa for slag cement and the Chanda project. Installations at Chaibasa are expected to be completed by March 1970, while the first unit of the Chanda project is expected to be commissioned shortly. Its second unit is also expected to go on stream by July this year. In this manner the annual manufacturing capacity of the company will be nearly 7 million tonnes.

The chairman pointed out that the financial results of the company for the year ended July 31, 1969, have not been very encouraging because of increasing cost of production and increased provision for depreciation due to new capacity going into production.

The profitability has been reduced also by the increased interest charges on borrowings necessary for expansion. Another factor is the inadequate increase in retention price which was belatedly sanctioned. The chairman added that with the reduced profitability the company has been planning diversification into new fields. A detailed investigation has been carried out on the granulation of fertiliser mixtures for which a study team was specially deputed to obtain first hand information from abroad. It has been decided to set up two granulation plants each of 50,000 tons capacity at Sevalia in Gujarat and Kistna in Andhra Pradesh near the cement works of the company. The company has already maintained facilities for marketing and it will find it convenient to market fertiliser. The Central Research Station of the company at Thana has made valuable contribution by way of research and technical assistance in cement, concrete and refractory technology and in machinery manufacture. The chairman hoped that the research station would participate further in the development of technologies.

SUDARSAN TRADING

Mr S. Chinnakaruppa Thevar, chairman, Sudarsan Trading Company Ltd, stated at the annual general meeting held recently that the chit fund business of the company improved considerably during the year ended July 31, 1969. The overall increase of business during the year by 22 per cent and turnover of Rs 17·95 crores was an all-time record. The chit fund unit of the company has opened 11 more offices during the year making a total of 65. The chairman added that there was need for an all-India legislation to regulate the chit fund business to discourage the speculative activity by some promoters so that the image of the chit funds is not damaged. Some of the state governments have enacted legislation on the subject but implementation has not been very satisfactory.

The chairman indicated that the Feroke Tile Works had to be closed because the unit could not be made profitable. The working of this unit resulted in severe loss to the company. On the other hand, the company proposes to expand its activities in other fields such as shipping, hoteliering, manufacture of plywood and other similar profitable ventures. When such diversification is carried through the company is likely to show improved results. To meet the capital requirements of various ventures proposed and to strengthen the capital structure of the company, the chairman said that further issue of shares would be proposed.

K.C.P.

The directors of K.C.P. Ltd have pointed out that the company made a net profit of Rs 93·46 lakhs during the year ended June 30, 1969, after providing Rs 85·50 lakhs for depreciation and bonus to staff. A sum of Rs 30 lakhs has been provided for taxation. The directors have proposed to transfer Rs 2·50 lakhs to capital redemption reserve, Rs 14 lakhs to development rebate reserve, Rs 5·42 lakhs to expansion reserve (cement) and Rs 1·28 crores to general reserve. The directors have proposed the payment of dividends on equity shares at the rate of 10 per cent which will absorb Rs 13·73 lakhs. Sales of the company during the year were around Rs 13·65 crores as against Rs 12·79 crores a year before. The company obtained an export order for a cement mill shell to Ceylon worth Rs 1·12 lakhs, which was executed by the company. Its sugar factory at Vuyyuru produced 46,578 tonnes of sugar with a recovery of 8·97 per cent as against 36,167 tonnes at a recovery of 9·3 per cent in the previous year. There was a fall in the turnover in the confectionery products of the company. There is no improvement in the company's distillery for want of allotment of alcohol by the government. The cement factory produced 174,000 tonnes as against 163,000 tonnes a year before. The central workshop of the company completed the erection of the cement plants for the Madras State Industrial Development Corporation Ltd, Cement Corporation of India Ltd and the Andhra Cement Company Ltd. The manufacture and delivery of equipment for Assam Cements Ltd had also commenced. The company has also secured a turnkey contract worth Rs 3·24 crores for Bokaro Steel for building the lime and dolomite shop. It has also secured an order from Bharat Aluminium at Korba for the supply of crushing and grinding plant for alumina. The company proposes to promote a new company mainly to provide technical and consultancy services, to undertake printing jobs and to manufacture electronic equipment.

STATE BANK OF INDIA

The directors of the State Bank of India have proposed a final equity dividend of Rs 13 per share for 1969. Together with the interim

dividend of Rs 10 per share already paid, the total dividend is Rs 23 per share, the same as in the previous year, and it will absorb Rs 129·38 lakhs. The bank has earned a higher net profit of Rs 550·01 lakhs during 1969 compared with Rs 505·76 lakhs in 1968, before providing for bonus to staff. After providing Rs 270 lakhs for bonus to staff, the profit works out at Rs 280·01 lakhs. The directors have transferred Rs 111 lakhs to reserve fund, Rs 9·73 lakhs to pension fund and Rs 25 lakhs to staff welfare fund. Last year, a sum of Rs 8 lakhs had been transferred to staff co-operative housing fund. The amount carried forward is Rs 15·91 lakhs against Rs 11·01 lakhs brought in.

An International Division of the State Bank of India has been set up to offer a comprehensive service of planning and development of foreign exchange business in step with the rapid growth and diversification of India's foreign trade. The division will be in overall control of international banking services and will operate through the State Bank s vast network of branches in this country and offices and correspondents abroad. It is equipped to appraise trade and business climates of different countries and secure qualified guidance on joint ventures in India and other countries, obtain credit information on foreign merchants, and provide technical guidance to Indian traders on documentation, regulations and finance.

STATE BANK OF MYSORE

The working of the State Bank of Mysore for the year ended December 31, 1969, has registered an all round progress. The deposits and other accounts of the bank were Rs 50·66 crores at the end of the year as against Rs 44·63 crores on December, 1968. The advances were higher by Rs 8·01 crores and stood at Rs 40·40 crores as against Rs 32·39 crores at the end of December 31, 1968. The working for the year has resulted in a net profit of Rs 24·30 lakhs, subject to audit, as against Rs 23·39 lakhs for the year 1968, which together with the sum of Rs 10,000 carried forward from the last year, amounts to Rs 24·40 lakhs available for appropriation. The board of directors, at their meeting held on January 17, 1970, have resolved to distribute dividend at 10 per cent. Provision for reserve fund is Rs 4·90 lakhs, for bonus to staff Rs 9·20 lakhs, and staff welfare fund Rs 25,000.

KIRLOSKAR CUMMINS

Kirloskar Cummins Ltd has reported during the year ended September 30, 1969, gross sales of Rs 5·02 crores as against Rs 3·46 crores during the previous year. The gross profit has increased from Rs 53·34 lakhs to Rs 102·60 lakhs. Of the gross profit a sum of Rs 21·50 lakhs has been provided for depreciation, Rs 4·25 lakhs for development rebate reserve and Rs 28 lakhs for taxation. The net profit thus works out higher at Rs 48·85 lakhs. After writing back Rs 80,000 being excess provisions for earlier years and after writing off Rs 1·05 lakhs on account of miscellaneous expenses, the disposable profit works out to Rs 48·60 lakhs, which the directors have decided to transfer to general reserve. Last year, a sum of Rs 5·62 lakhs had been provided for adjustment of depreciation for earlier years, Rs 11,778 transferred to reserve for doubtful account and a debit balance of previous years of Rs 27·65 lakhs set off. The balance available for disposal was Rs 14·2 lakhs, which had been transferred to general reserve. Last year, the directors had declared a maiden equity dividend of 4 per cent. This year they have not so far taken any decision on dividend payment.

PAPER PRODUCTS

The directors of the Paper Products Ltd have proposed to issue bonus shares in the ratio of one share for every five shares held. They have, however, skipped the equity dividend for the year ended July 31, 1969. The company had paid an equity dividend of 12 per cent for the previous year.

The company has reported a decline in its gross profit to Rs 15·20 lakhs for the year ended July 31, 1969, from Rs 28·50 lakhs in the previous year. After providing Rs 12·72 lakhs for depreciation and making no provision for taxation, the profit amounts to Rs 2·48 lakhs. Development reserve gets Rs 1·26 lakhs and general reserve Rs 13·47 lakhs following the changeover to the straightline method of depreciation on the packaging division assets. Sales of the packaging division have declined to Rs 258 lakhs from Rs 267 lakhs and its gross profit to Rs 7·77 lakhs from Rs 18·70 lakhs. Madras and Faridabad plants have shown an encouraging increase in sales of 68 per cent and 33 per cent respectively but sales of the Thana plant have fallen by 16 per cent owing to labour unrest for more than five months during the year. The profitability of the division has been affected by the sharp decline in demand for packaging from the confectionery industry and delay in the issue of import licences for essential raw materials.

SHAH CONSTRUCTION

Shah Construction Co Ltd has proposed to issue bonus shares in the ratio of one new share for every seven shares held by capitalising Rs 8·75 lakhs from general reserve. They have also proposed an equity dividend of 6 per cent for the year ended June 30, 1969. The company passed over the equity dividend for 1967-68, and paid an equity dividend of 12 per cent for 1966-67. During the year, the turnover has amounted to Rs 5·09 crores compared with Rs 5·16 crores in the previous year. Though there has been an increase in profitability in the company's working, it was neutralised to a large extent by the absorption of the losses to the tune of Rs 19·56 lakhs from a partnership of Messrs. Gammon Shah in which the company is a partner. The company's working during the year has resulted in a lower gross profit of Rs 26·78 lakhs compared with Rs 31·67 lakhs in the previous year. After providing Rs 15·92 lakhs for depreciation and Rs 2·60 lakhs for development rebate reserve, the net profit works out at Rs 8·26 lakhs. No provision has been made for taxation. After bringing in Rs 57,604, the amount available for disposal is Rs 8·83 lakhs. The directors have transferred Rs 9·59 lakhs to general reserve. Preference dividend will absorb Rs 1·90 lakhs and equity dividend Rs 3·67 lakhs. Dividends will be paid from general reserve.

ENGINE VALVES

There is an offer for the sale of 140,000 equity shares of Rs 10 each of Engine Valves Ltd, at a premium of Rs 4 per share. One thousand preference shares of the company are also to be sold at Rs 100 per share. The list for applying to this share offer opened on January 23. The working results of Engine Valves in the last five years have been quite good. The company's turnover, which amounted to Rs 58·79 lakhs in 1964-65 has expanded to Rs 1·09 crores during 1968-69. The pre-tax profit has nearly doubled to Rs 54·85 lakhs during this period. The company paid a dividend of 15 per cent for 1968-69. It has already declared an interim bonus of 7·5 per cent for 1969-70. The shares now offered for sale will be eligible for the final dividend for the year ending March 31, 1970. As against an issued capital of Rs 58·77 lakhs, the reserves and surplus at the end of March 31, 1969, amounted to Rs 28·28 lakhs. The shares have been offered for sale in order to list the share in the Madras Stock Exchange.

ASSOCIATED BATTERY

Associated Battery Makes (Eastern) Ltd is likely to show improved production and sales in the current year over the same period last year and further improvement is expected, particularly in the rate of production at Chinchwad. The managing director of the company stated that despite increased turnover and the major capital expenditure for the new factory at Chinchwad, the company still has considerable scope for expansion without recourse to raising further capital. The Chinchwad factory has gone on stream in May, 1969 and by the end of August, 1969 was already producing at the rate of 60 per cent of its licensed capacity. In the current year, production has further improved and expected to reach its licensed capacity before the end of this year. Despite reduced international prices the company has been able to sell 18·9 per cent of its automobile battery production overseas. While it continues to receive repeat orders from the USSR, which is its largest single export customer, it has been able to export more to the general currency areas. The company has been exploring ways and means of diversifying into sale or manufacture of allied products. It has entered into an arrangement with another manufacturer for the sale of Exide branded dry batteries and torches. This is expected to broaden its range of products and enable it to strengthen its distribution system. The company has applied for further expansion of both hard rubber container and battery manufacture.

MADRAS RUBBER

During the year ended September 30, 1969, Madras Rubber Factory Ltd revealed a higher pre-tax profit of Rs. 94·25 lakhs against Rs 80·82 lakhs for the previous year in line with about 20 per cent increase in sales to Rs 20·33 crores from Rs 16·84 crores. Allocation for depreciation was Rs 33·65 lakhs and for development rebate reserve Rs 20 lakhs. With a balance of Rs 2·70 lakhs, the disposable surplus for the year amounts to Rs 96·95 lakhs out of which taxation claims Rs 45·50 lakhs and general reserve Rs 54·45 lakhs. The proposed 12 per cent equity dividend will account for Rs 22·49 lakhs. The company has been granted permission to expand its capacity for automobile tyres from Rs 360,000 units to 610,000 units. The expansion would cost about Rs 5·5 crores. It will be financed from internal resources and loans. The company has already received import licences worth Rs 1·95 crores for the purpose. Meanwhile its pilot plant for the manufacture of cycle tyres and tubes has commenced its trial production and commercial production would begin by the end of the current year. The company's exports rose from Rs 38·71 lakhs to Rs 55·08 lakhs.

UNIT SALES

The Unit Trust of India sold units worth Rs 2·30 crores during October-December, 1969, the second quarter of its current financial year, compared with Rs 2·72 crores in the same period of the previous year. Repurchases of units during the period amounted to Rs 48·50 lakhs. During the quarter 5,700 new applications were received by the trust. The total sales of units in the first half of the current year (July to December, 1969) aggregated Rs 18·71 crores compared with Rs 13·77 crores in the corresponding period of 1968. Repurchases during the period totalled Rs 1·09 crores. Thus the total net sales of units were higher at Rs 17·62 crores. Of the total sales in the first half of the current year, a sum of Rs 33·26 lakhs was invested by non-residents under 300 applications against Rs 11 lakhs under 151 applications in the same period last year. The total number of accounts registered with the trust by the end of 1969 was 318,000 and the aggregate unit capital exceeded Rs 74·27 crores. At the end of 1968 the total number of account holders was 255,000 and the aggregate unit capital amounted to Rs 53·76 crores.


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sweetness
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simple?
the sweet young thing,
all covered up in folds of loveliness..
in the aura of Century's
tastefully elegant cotton saree.
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COMPANY MEETING

THE ASSOCIATED CEMENT COMPANIES LIMITED

Extracts from the Statement of the Chairman, MR. N. A. PALKHIVALA

The following is a summary of the statement issued to shareholders by Mr. N. A. Palkhivala, Chairman, The Associated Cement Companies Limited, on the Company's working for the year ended 31st July 1969. The Annual General Meeting of the Company was held on Friday, January 23, 1970 at 3.30 P. M. at the Birla Matushri Sabhagar, 19 Marine Lines, Bombay 20.

This Annual General Meeting of your Company — the Thirtythird — is held at a time which may be regarded as of unusual significance for more reasons than one. This is the last year of the stewardship of your Company by the Managing Agents: and possibly the first year of grave political instability and graver economic uncertainty. India is travelling under formidable omens into a new era which regards rationality, independent thinking, and a sense of values as things of no moment.

2. History is replete with ironies. But it may be doubted whether the story of man affords a more tragic irony than the happenings in the Mahatma's motherland in the Centenary Year of his birth — the total disregard for his creed in economics and politics and the great schism within the Indian National Congress. Other countries have rejected their Prophets: but only the daedal Indian mind can revere the Mahatma and reject his teachings.

Socialism

3. Our Constitution aimed at making India the land of opportunity; our politicians have converted it into a land of opportunism. They have made socialism the opiate of the people. "Socialism" has become a word comprehensive enough to cover the entire spectrum of economic folly — a plethora of harmful State controls, periodic bouts of nationalisation, and the pursuit of policies which ensure unemployment and economic retrogression.

4. Every thinking man in India today accepts without reservation the true socialistic objectives of economic development. True socialism means the investment of human and material resources in an imaginatively planned manner which can contribute to the vitality and progress of the nation, keep it in the mainstream of self-generating growth and development, raise the standard of living of the masses, and bring forth the maximum gifts of each for the fullest enjoyment of all. The translation of such socialism into action demands intellect and knowledge, character and dedication, of the highest order.

5. But there is the other type of socialism which is socialism on the cheap, which feeds on slogans and promises, and thrives on the gullibility of the people. Will Durant, after a life-long study of various civilizations, summed up the lesson of history which has great significance for India: "Democracy is the most difficult of all forms of government, since it requires the widest spread of intelligence, and we forgot to make ourselves intelligent when we made ourselves sovereign.. A cynic remarked that 'you mustn't enthrone ignorance just because there is so much of it' .. It may be true, as Lincoln supposed, that 'you can't fool all the people all the time', but you can fool enough of them to rule a large country."

6. If the wrong brand of socialism becomes the national policy, we may continue to dream of a higher standard of living but will never manage to underwrite our dream in terms of output. No amount of slogan-mongering or munificent promises can get over the basic law of economics — you cannot divide more than you produce.

Unemployment

7. The spectre of unemployment will brood over the 1970's and the magnitude of the problem may be such as to shake the very foundations of democracy. The number of persons employed in the organised non-agricultural trade and industry (including public and private sectors) is 16 million and the annual average growth rate is 4.9 per cent. As against this, the figure of urban unemployment is estimated at 7 million, of which 1 million are educated job-seekers. Two lakh new graduates represent the annual outturn of our universities. In the rural areas the unemployed number about 8 million. It is estimated that at the end of the Fourth Plan there will be as many as 28 million desperate job-seekers who will roughly account for 8 per cent of the working population. Any economic policy which on ideological grounds prevents the full development of job potential constitutes a crime against the nation.

8. The figures of per capita income over the last 10 years are truly revealing. In 1960-61 the per capita income was 306.7, in 1963-64 it was 367, in 1964-65 it was 420.2, and in 1968-69 it was 545.6. This increase is misleading, because it mainly represents the erosion in the value of the rupee. At constant prices the figures of per capita income are the following:

1960-61	306.7
1963-64	319.2
1964-65	333.6
1968-69	319.3

Thus at constant prices, the per capita income in 1968-69 was no higher than it was in 1963-64; it was only 4% higher than in 1960-61, and was actually lower than in 1964-65. With our burgeoning population, even if we attain a steady growth rate of 6% year after year, it would merely permit our per capita income to double in 20 years.

Size and Monopoly

9. It would be difficult to name another democracy where there is such confusion in governmental thinking between mere size and monopoly, and such inane obsession with concentration of economic power. In reality, a single bureaucrat wields more economic power than the largest industrial group in the country.

10. The distinction between big business and small business has lost all relevance in the context of the problems facing us today. In this decade of scarcities, the most scarce commodity is character and integrity — and the size

of a business house has nothing to do with it. The line should really be drawn between socially responsible business and socially irresponsible business.

11. There is no reward and no official recognition for those businessmen who are fully mindful of their social responsibilities and whose activities are conducive to greater public good than the public sector itself. Neither our laws nor our administrative policies make the vital distinction between business houses which are ethical and those which are not. The position of honest business houses will become even worse and their capacity for doing good to the country will be further reduced when the Monopolies and Restrictive Trade Practices Act, 1969, comes into force, and if and when the Licensing Inquiry Committee's Report (generally known as the Dutt Committee Report) is implemented.

12. Our Republic, born in 1950, will cease to be a teenager this year. The time has come to shed half-baked theories and out-dated doctrines, and do some adult thinking. The concerted and co-ordinated efforts of all classes of society, and a meeting of minds between the Government and the business community, will be necessary to make the 1970's the DECADE OF MATURITY in economic affairs. The old ideologies of Capitalism and Socialism, the ancient conflict between capital and labour, the rich and the poor, the unthinking dichotomy between public sector and private sector, big business and small business — have now been drained of all significance. The crying need of the hour is co-operation and co-ordination.

13. I shall come now to matters which are directly and specially apposite to your company.

Cement Decontrol

14. Let me first deal with the question of decontrol of cement. To control or not to control — that is the question. It is the mark of a fine philosophical mind not to come to a final decision on the nature of ultimate reality. But in mundane affairs and public administration, delay and indecision is hardly a virtue.

15. After two decades of control which had not corrected regional imbalances or reduced prices, and after detailed and prolonged examination of all aspects of the matter, the decision to decontrol cement from 1-1-1970 was announced in Parliament by the Minister for Industrial Development on 14th April last year. It was reiterated by him several times in various forums. It was a well considered economic decision in consonance with the recommendations of the Planning Commission and the broad policies of the Government to relax controls wherever feasible. Nevertheless, purely as a result of political pulls and pressures, the decision has now been reversed and the control on cement is to continue for an indefinite period. The beneficiary will not be the consumer but a group of producers who are accustomed to, and who prosper under, the umbrella of controls and who are afraid to breathe the free air of competition. They have successfully lobbied to preserve their privileged position and the interests of the nation at large have been — not for the first time — sacrificed. The continuation of cement control is a striking example of how controls and freight-pooling arrangements can create entrenched interests which forget how to live without props. It is also illustrative of how the Government injects politics into economics and can be pressurised into abandoning sound decisions and adopting policies which it knows to be wrong.

16. What will be the effects of the Government's policy of dithering and evading a decision on cement? Producers naturally have no desire to ex-

pand under existing conditions of restraint and control. New cement factories are unlikely to come up in the deficit areas, e.g., the North and the North-East. The normal forces of the market will not operate to create competition, and buyers will have to bear the burden of the freight equalisation pool. It is incredible that when there is a surplus of cement production, the Government should have reversed its own firm decision, only a week before decontrol was to commence.

17. I should like to make it clear that it is not as if your Company expected to make higher profits upon decontrol. In fact, we gave the Government an assurance that the selling price of cement would be so determined as to leave us with the same ex-Works realisation of Rs 100 per tonne, as we have been getting since April 1969.

Social Obligations of ACC

18. To-day 'profit', like 'property', has become a dirty word. (Liberty is not yet a dirty word, but it may one day become so). Most men work for profit, but the profit may be in monetary or non-monetary form. The mistake lies in thinking that those who work for political profit or for profit in the form of power, are less dangerous to society than those who work for monetary profit.

19. The sins of a few business houses have been utilised to blacken the entire business community, the majority of whom are as patriotic, law-abiding and conscious of their social responsibilities as any other section of the community. The good which has been done by business — in getting the nation moving after centuries of stagnation, creating employment and developing the national economy, contributing revenues to the public exchequer, fostering the spirit of enterprise and initiative — is easily forgotten. No doubt, some businessmen are guilty of misdeeds, but the percentage of those who do not discharge their social obligations is no greater than what you find among politicians and in the public sector and co-operative enterprises.

20. I am proud to say that your Company has been, from its very inception, conscious of its obligations to the community and has always kept in view its social responsibilities. Our emphasis in production has always been on quality; our emphasis in distribution has always been on availability of the product at a fair price. Mindful of its obligations towards the local community, your Company has been operating welfare schemes for the villages around its Works. We have demonstration farms where the benefits of scientific farming as well as the benefits of simple improvements to cattle-sheds, etc. are on display. Expert advice on farming problems is also provided.

Managing Agency

21. The Managing Agents of your Company, Cement Agencies Ltd., will pass from the scene from the 2nd April of this year. Cement Agencies Ltd. have been the Managing Agents since the inception of your Company 33 years ago. The ACC's installed cement production capacity will have increased from 10 lakh tonnes per annum in 1936 to 69 lakh tonnes per annum by July 1970. The Gross Block has increased from Rs 6 crores to Rs 97 crores. I should be failing in my duty if I did not place on record, on your behalf, our gratitude to the Managing Agents for their laudable service to the Company over a third of a century.

Working Results

22. Despite increased production and sales, the year under report has once again been a disappointing one for your Company. The main reasons for this unhappy state of affairs are the ever-increasing cost of production in items over which your Company has no control, larger provision for depreciation due to new capacities going into production and higher interest charges on increased borrowings for accelerated expansion. Another factor which contributed to the low profitability was the inadequate increase in retention price which was belatedly sanctioned by the Central Government in the middle of April 1969.

Expansion

23. All the schemes covered by the first phase of our expansion programme have been completed except for the grinding, blending and packing plant at Chaibasa for slag cement and the Chanda Project (formerly known as Ghugus). The installations at Chaibasa are expected to be completed by March 1970. While the first unit of the Chanda Project is expected to be commissioned shortly, the second unit is also well under way and is expected to go on stream by July 1970. This will bring the Company's annual manufacturing capacity to nearly 7 million tonnes

Granulated Fertiliser Mixtures

24. With the profitability of the Cement Industry becoming increasingly restricted, your Company has been considering diversification into new fields. Recently, a detailed investigation was carried out on the granulation of fertiliser mixtures, for which a study team was specially deputed abroad to obtain firsthand information. It is universally accepted that the use of fertiliser mixtures in the granulated form is the most scientific and effective method of applying fertilisers to suit the soil and the crop. Your Directors have now decided to set up two granulation plants, each of 50,000 tonnes capacity per annum, at Sevalia in Gujarat and at Kistna in Andhra Pradesh, adjacent to our Cement Works. Efficient distribution and marketing along with agronomic advice to the farmers is considered very essential for the fertiliser industry. Your Company has already well-developed facilities for marketing in the organisation of the Cement Marketing Co. of India Ltd., as well as active agricultural cells at many of its cement plants established over a period of years under the "Village Welfare Scheme."

25. Our Central Research Station at Thana has been closely associated with the formulation of this and other diversification proposals. It continues its valuable contribution by way of research and technical assistance in cement, concrete and refractory technology and in machinery manufacture. In the years ahead, we can expect increasing participation by the Research Station in the development of technologies.

26. Finally, a word of appreciation and gratitude. Your Company's performance during the year under review would not have been possible without the loyalty, co-operation and sense of duty of the Company's staff at the Works and the Collieries, the Offices and other establishments.

Bombay
January 13, 1970.

RECORDS AND STATISTICS

Taxation in Developing Countries

TAX EFFORT is a measure of a country's own effort to raise taxes. The concept is often used in discussions of development but it is far from simple. In an article entitled "Tax Efforts in Developing Countries" the authors Jorgen R. Lotz and Elliott R. Morss have adopted a refined measure for evaluating tax effort besides providing some explanations of the complexities. The article was published in *Finance and Development*, No. 3, 1969, a Quarterly Publication of the IMF and the World Bank Group, and is reprinted below.

Countries in all stages of development are often faced with the need to curb aggregate demand in order to finance a new programme or to restrict excessive private spending, correct a balance of payments deficit, or for some other purpose. For developing countries such a curbing of demand is self-evidently important and the means of achieving it call for very careful study. Fiscal policy can curb aggregate demand both through tax increases and through reductions in government expenditure, and both these steps should be considered. In making a choice between these policies one factor must be the already existing level of taxation in the country.

Criterion for Tax Effort

Reasonable men may very well find it difficult to agree on what constitutes a high or a low tax effort in particular instances, but most would agree that inter-country comparisons are at least relevant. We have accordingly attempted to develop a criterion of tax effort based on comparisons among different countries that are similar in respect to factors that affect a country's tax-collecting abilities, and then to rank countries accordingly. The ranking of the developing countries according to the tax effort measured with allowance for per capita gross national product and openness is given in Table I and the ranking according to tax ratio and tax effort is given in Table II.

In the past, considerable attention has been focussed on the ratio of tax revenue to national income as an index of tax effort, a formulation that implies that total income is a proper indicator of taxable capacity and that tax effort is measured by the ratio of tax revenue to income.

Table II, column (2), shows for 52 developing countries[1] the ratio of tax revenue to one measure of national income—gross national product (GNP). The country with the highest tax ratio is ranked 1 and the lowest, 52. For most countries, the data are averages for 1963—65. The rankings should be interpreted cautiously because they do not take account of certain economic and non-economic factors that may be especially important in evaluating the tax effort of particular countries. Also the tax ratios for some of the countries have probably changed since the period covered, and for these countries the tax ratios will not reveal the situation in the most recent year. Finally, it should be emphasized that a low or high ranking in tax ratio does not imply that taxes should be increased or decreased. An informed opinion on that question should take into consideration economic conditions, the character and level of government expenditures, administrative capacity, and a variety of other matters. The ranking, in short, does not in any way represent an order of fiscal or administrative merit.

Compulsory Levies

Tax revenues of all levels of government—national, provincial, and local—are included, and taxes are defined as compulsory levies, that are not necessarily related to particular benefits received. Although the distinction between a fiscal monopoly and a public enterprise is difficult to make, tax revenues are necessarily interpreted to include profits and losses of fiscal monopolies (as that term is locally understood) and of marketing boards. For example, profits of monopolies in salt, matches, sugar, tobacco, and so on are included on the grounds that these profits are a type of tax. Also included are employee and non-government employer contributions to social insurance funds.

In addition to aggregate income, the denominator in the tax ratio, there are other factors affecting a country's taxable capacity. One of the most important is the stage of economic development. Economic development is usually accompanied by a higher rate of literacy, increased monetization, and stricter law enforcement—all of which can be expected to increase taxable capacity. Since economic development has many dimensions, it cannot be measured precisely either by a single variable or by a single combination of variables. However, one variable frequently used by economists as an indicator of the development stage is per capita income. Hence one would expect taxable capacity and per capita income to move in the same direction.

There is another reason to expect a positive relationship between per capita income and taxable capacity. For two countries with the same total income but with per capita income of, say, $50 and $1,500, respectively, taxable capacity is greater in the latter because a smaller

TABLE I

RANKING OF DEVELOPING COUNTRIES

(According to Tax Effort Measured with Allowance for Per Capita Gross National Product & Openness*)

Country	Tax Effort Rank
High Tax Effort Countries	
Brazil ..	1
Congo, Democratic Republic of ..	2
Burma ..	3
Algeria ..	4
United Arab Republic ..	5
Uruguay ..	6
Ceylon ..	7
Greece ..	8
Chile ..	9
Ecuador ..	10
Mali ..	11
Dominican Republic ..	12
Average Tax Effort Countries	
Argentina ..	13
Malagasy Republic ..	14
Malaysia ..	15
Portugal ..	16
Kenya ..	17
Turkey ..	18
Iran ..	19
Iraq ..	20
India ..	21
Cameroon ..	22
China, Republic of ..	23
Peru ..	24
South Africa ..	25
Sudan ..	26
Chad ..	27
Tanzania ..	28
Ghana ..	29
Uganda ..	30
Thailand ..	31
Liberia ..	32
Niger ..	33
Nigeria ..	34
Panama ..	35
Low Tax Effort Countries	
Jamaica ..	36
Nicaragua ..	37
Costa Rica ..	38
Trinidad and Tobago ..	39
Malawi ..	40
Spain ..	41
Haiti ..	42
Colombia ..	43
Philippines ..	44
Paraguay ..	45
Korea ..	46
Ethiopia ..	47
El Salvador ..	48
Mexico ..	49
Honduras ..	50
Guatemala ..	51
Afghanistan ..	52

*Based on tax effort measure presented in column 4 of Table II.

proportion of total income is required for subsistence needs and more "surplus" is available for taxation and other purposes. It follows that, if the two countries have equal tax ratios, the poorer country is making a greater tax effort.

It appears that taxable capacity in developing countries also increases with the size of the foreign trade sector—that is to say, with the openness of the economy (an economy is described as "open" when its foreign trade is high in relation to GNP); there are two reasons why this is so. First, from an administrative point of view, trade inflows and outflows are more easily taxed than are domestic transactions. Second, the "degree of openness" is often, especially in early stages of development, an indication of the importance of cash crops compared with subsistence agriculture and of the degree of urbanization and industrialization.[3] This suggests that openness is associated with conditions which facilitate taxation.

In what we write here, then, explicit consideration is given to only three measures of taxable capacity: aggregate GNP, per capita GNP, and the size of the foreign trade sector. Other important factors which are believed to affect taxable capacity but which are not considered explicitly include the distribution of income, the industrial origin, output and the composition of government expenditure. In the consideration of our rankings important deviations from the average in any of these factors should be kept in mind.

Two Problems

There are two problems associated with allowing for differences in per capita income and the size of the foreign trade sector that call for particular attention—the accuracy of the data and the methodology used to take account of the differences. It is extremely difficult to make inter-country comparisons of per capita income. This is due in part to the fact that the GNP figures include the imputed value of output by subsistence sectors; also, there is the problem of converting the figures of per capita income into standardization units for comparative purposes. For conversion of the per capita GNP into common units, we had two alternatives. One was to convert the national currency figures into dollars at the official exchange rates. The other was to convert the figures by using a series of "exchange rates" on a basis of purchasing-power parity evolved in the United Nations. These UN "exchange rates" were "estimated by adjusting the official or free market exchange rates in 1938 in each country by the relative change in the level of prices from 1938 to the year in question, between the United States and the country concerned.[8]" Both methods have weaknesses. Neither set of conversion rates measures accurately the purchasing power of currencies with respect to the different collection of goods actually used in different countries; at best, the exchange rates reflect relative prices of internationally traded goods.

We elected, with the exception of Brazil, Chile, Colombia, and the Philippines, to use

TABLE II

RANKING OF 52 DEVELOPING COUNTRIES ACCORDING TO TAX RATIO AND TAX EFFORT

Country	Tax Ratio** (Tax Revenue to gross National Product)		Tax Effort** (After allowing for Per Capita Gross National Product and Degree of openness)	
	Rank	Ratio	Rank	% Difference from average
	(1)	(2)	(3)	(4)
Congo, Democratic Republic of	1	22·5	2	33·3
Algeria	2	22·4	4	28·8
Uruguay	3	21·8	6	23·7
Brazil	4	21·4	1	39·1
Chile	5	20·9	9	17·8
Malaysia	6	20·5	14—15	12·3
Greece	7	20·4	8	19·1
Argentina	8	20·1	13	14·6
Ceylon	9	18·6	7	20·4
United Arab Republic	10	18·5	5	26·2
Burma	11—12	18·4	3	29·8
Iraq	11—12	18·4	20	8·5
Dominican Republic	13—14	17·9	11	15·6
Portugal	13—14	17·9	16—18	11·3
Liberia	15	17·7	32	—8·1
Kenya	16—17	17·2	16—18	11·3
South Africa	16—17	17·2	25	—0·5
Ecuador	18—19	16·7	10	16·7
Trinidad and Tobago	18—19	16·7	39	—23·9
Iran	20	16·3	19	9·7
Peru	21	16·0	24	3·9
Malagasy Republic	22	15·7	14—15	12·3
Jamaica	23	15·6	36	—18·2
Mali	24—25	15·4	12	16·3
Cameroon	24—25	15·4	22	6·4
Turkey	26—27	15·1	16—18	11·3
Panama	26—27	15·1	35	14·4
China, Republic of	28	15·0	23	5·5
Ghana	29—30	13·9	29	—6·9
Uganda	29—30	13·9	30	—7·0
Tanzania	31—32	13·8	28	—6·1
Costa Rica	31—32	13·8	38	—22·2
Nicaragua	33	13·5	37	—22·1
Sudan	34	13·3	26	—2·6
Chad	35	13·0	27	—3·9
Thailand	36	12·6	31	—8·1
India	37	12·5	21	6·6
Spain	38	12·2	41	—28·7
Niger	39	12·0	33—34	—10·7
Malawi	40	11·7	40	—25·4
Nigeria	41	11·3	33—34	—10·7
Colombia	42—43	10·9	43	—30·8
El Salvador	42—43	10·9	48	—45·6
Philippines	44	10·8	44	—31·2
Paraguay	45	10·2	45	—31·8
Mexico	46—47	9·9	49	—47·5
Honduras	46—47	9·9	50	—53·3
Haiti	48	9·6	42	—30·2
Guatemala	49	9·3	51	—59·0
Korea	50	9·0	46	—37·0
Ethiopia	51	8·3	47	—44·8
Afghanistan	52	5·9	52	—106·9

**For most countries the data are averages for 1963-65.

the official exchange rates, with the result that our estimates, of per capita income in US dollars are in some instances appreciably higher or lower than estimates based on the alternative series. Generally, an overestimate of per capita income tends to result in too low a ranking in tax effort, while an underestimate has the opposite effect. Readers may wish to allow for this factor in interpreting our rankings.

For our estimate of the degree of openness, we took the sum of merchandise exports (f.o.b.) and imports (c.i.f.) as a percentage of GNP.

We "took account of" per capita income and the importance of foreign trade in the following way. First we made a least-squares estimate of the "averge" tax ratio for any country as a function of its per capita income and its degree of openness.[4] Next the actual tax ratios and our "averages" were compared; the country whose actual tax ratio exceeded the "average" one by the largest percentage was given the highest tax effort ranking and the country whose actual tax ratio fell short of the "average" by the largest percentage was given the lowest ranking.

In Table II, column (1), 52 developing countries were ranked on the basis of the tax ratios. In column 3 the rank of the same countries is shown allowing for per capita GNP and degree of openness.

To get a better idea of the major differences between the two measures, few specific examples may be helpful. On a simple tax ratio basis, Chile ranks fifth. However, when account is taken of Chile's per capita income, which is high relative to other countries, its tax effort rank falls to ninth. In contrast, the tax effort of the Malagasy Republic, a low-income country with an average degree of openness appears considerably greater when allowance is made for income differences. The tax effort ranking of Malaysia, a country with a large foreign trade sector and a high income falls as a result of allowing for the openness factor.

In Table I, the countries are divided into three groups—high, average, and low tax effort—on the basis of our tax effort measure (presented in Table II, column (4).

Examination of Table I reveals wide differences among countries in the same geographic area but suggests a clustering that is worthy of comment. Of 11 Central American and Caribbean countries (including Jamaica) in the table nine are in the low tax effort group. Countries in other geographic areas are more evenly distributed among the tax effort groups. The ranking of the Central American countries may be due to various political, cultural, and historical factors which condition attitude towards the role of government and taxation, as well as to economic factors that were not investigated in this study.

The results of our exercise give only a rough indication of the relative tax performance of countries. Only two of the several factors that should be allowed for in a full assessment of a country's tax performance have been taken into account. Nevertheless, we believe that our results bring one closer to a meaningful comparison of tax performance than is possible through an examination of simple tax ratios. It must be stressed again that tax effort is only one of several factors that should be considered in making tax policy decisions. A more detailed examination of the special circumstances of individual countries is needed before judgment for or against higher taxes is made.

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3. United Nations., *Yearbook of National Accounts Statistics*, 1965. The year 1938 was chosen because exchange rates were thought to be relatively close to equilibrium values because of the absence of restrictions in that year.

4. For technical details and basic data, see Jorgen R. Lotz and Elliott R. Morss. "*Measuring Tax Effort in Developing Countries,* International Monetary Fund. *Staff Papers,* Vol XVI (1967), Pp. 487-99.

Regd. No. D-314
Registered with the Registrar
of Newspapers for India
under No. R. N. 535/57

Printed and Published by R. P. Agarwala, on behalf of the Eastern Economist Ltd., United Commercial Bank Building, Parliament Street, New Delhi, at the New India Press, Connaught Circus, New Delhi
Editor : V. Balasubramanian
Registered at the G.P.O., London, as a newspaper

EASTERN ECONOMIST

RUPEES 1.50. FEBRUARY 6, 1970. VOL. 54

6

Privy Purses and Privileges

Banks and Boom in Business

Scientific Storage

Tea Producers — Old and New

Pride and Prejudice

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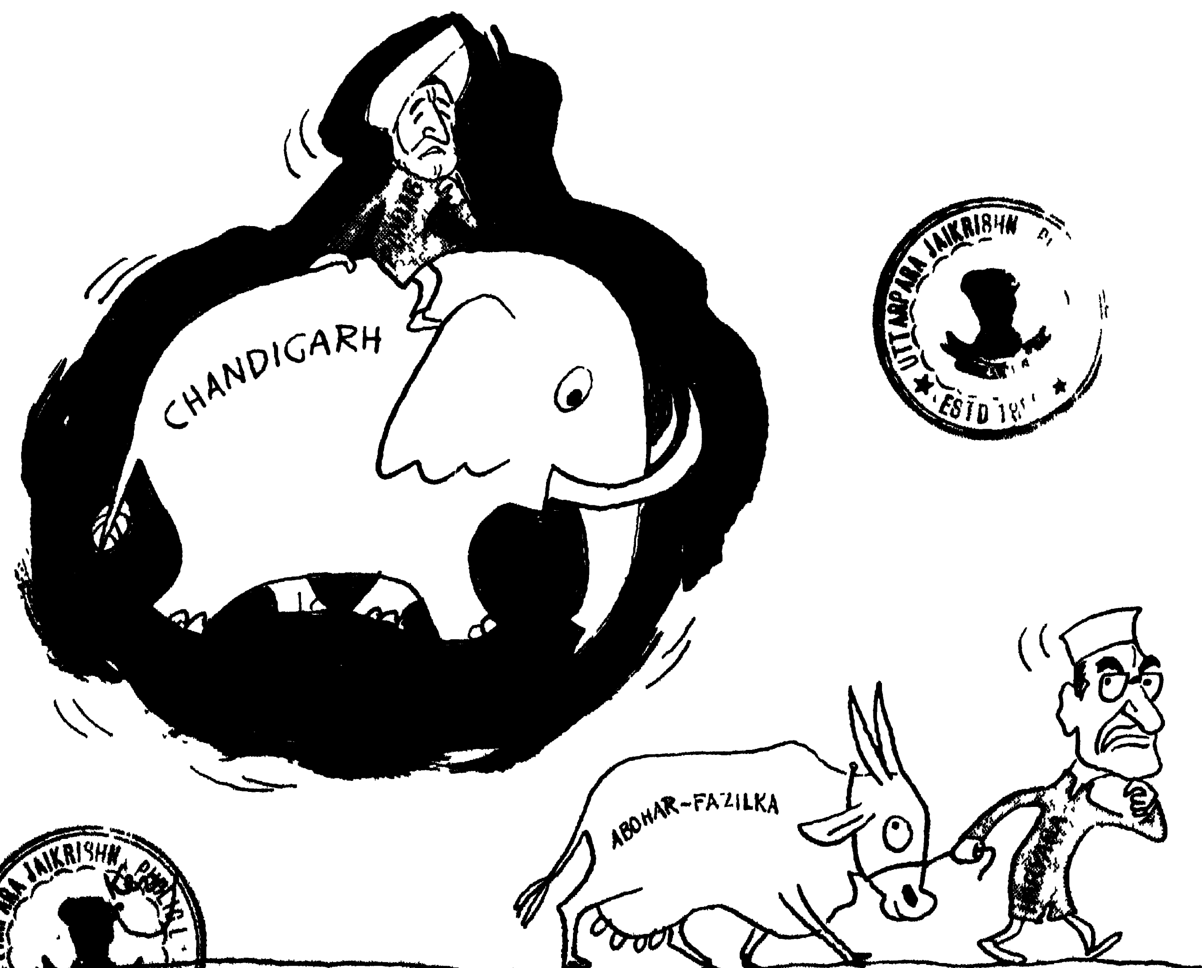

Is his share bigger than mine?

EASTERN ECONOMIST

FEBRUARY 6, 1970.

ANNUAL SUBSCRIPTION
INLAND : Rs 85.00
FOREIGN : £7-0-0 or $17-00
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Pride and Prejudice

THE DISPUTE between Punjab and Haryana over Chandigarh has not been settled to the entire satisfaction of both the states. Haryana went through a bloody turmoil immediately after the announcement of the centre's award on January 29 resulting in the loss of more than a dozen lives in police and military firing. In Punjab, though Sant Fateh Singh gave up his fast as well as the threat of self-immolation, there is great resentment against the transfer of some areas of Fazilka tehsil (including Abohar) to Haryana. Strangely, it is the Jana Sangh party in the Punjab coalition of Akali-Jana Sangh which has asked the government to reject the centre's decision on Chandigarh by February 10.

What has transpired since January 29 was not unexpected because, during the last three years, both the states had created an atmosphere surcharged with emotion where cool calculation or reasoning had no place. It was known that in the absence of a solution acceptable to both the states, the award by the centre would hurt the pride of one or the other state. Even though the centre has attempted to evolve a solution balancing the gains and losses of both the states yet some time more must pass before tempers cool down and both the states are able to understand fully the implications of the award.

Haryana has not received a raw deal as is being made out by some of its leaders. Under more dispassionate environment Haryana would have realised that with the acquisition of Fazilka-Abohar, it had acquired revenue-earning areas which could more than cover the cost of building a new capital over the next five years. Moreover, the grant of Rs 10 crores plus a loan of an equal amount will assist it in building up a new and more modern capital than Chandigarh. It is true that the majority decision of the Shah Commission was in favour of handing over Chandigarh to Haryana but the bullying tactics of leaders from Punjab, coupled with the weak government at the centre, made the implementation of this recommendation impossible. It can certainly be questioned if the centre will be strong enough to implement the decisions of the commission proposed to be appointed for examining the claims and counter-claims of both the states in regard to some of the border districts. What is the significance of a commission whose recommendations are not going to be accepted by the government? The centre must guarantee beforehand that it will not meddle with the suggestions of the new commission.

While the political parleys were going on for more than three years over Chandigarh, no one tried to ascertain the views of the people of Chandigarh. Each side claimed that the people there were on its side. None of them dared take an opinion poll. This is indeed ironical in a country which boasts of democratic traditions and where the people of a city were not asked to give their opinion before transfer to one state or the other.

None of the parties which were involved in this dispute has emerged unsoiled. The centre has bungled and so have the states of Punjab and Haryana. The reputation of Sant Fateh Singh has also suffered because he claims that he is "a man of God" whose sole aim is to bring about Hindu-Sikh unity in Punjab but who has used an unholy weapon (the threat of self-immolation) for winning Chandigarh for Punjab. The Prime Minister, Mrs Indira Gandhi, has also not honoured her promise of not taking the decision on Chandigarh under pressure. It is now no secret that she did take the decision under pressure a couple of days before Sant Fateh Singh was to immolate himself. It is indeed a pity that in our country the politicians do not mean what they say. And lastly, Haryana also has not exhibited any statesmanship in staging unruly demonstrations and stone-throw-

ing resulting in fruitless waste of precious lives and public property. It has unnecessarily allowed itself to be carried away by emotions. The central award is not a bad bargain for it, the leaders in Haryana well realise this when they apply their minds to the award in a cool and dispassionate manner.

Banks and Boom in Business

THE DEVELOPMENTS in the current busy season have come about in an unexpected manner as advances of the scheduled commercial banks have risen by nearly Rs 148 crores in a three-week period ending January 16, 1970, against only about Rs 33 crores in the corresponding period in 1968-69. The monetary authorities have obviously been caught napping as it was not expected that so early in the busy season there would be a big spurt in advances and the position of member banks would be over-extended, necessitating an increase in borrowings from the central banking institution by as much as Rs 141 crores against Rs 27 crores in the same period in 1968-69. It is significant to note that out of the total increase in advances of Rs 247 crores so far in the current season, the expansion of credit has been of the order of Rs 148 crores in a three-week period; though it must be accepted that there has been a brisker demand for funds in the recent months with a high level of economic activity and perhaps a rising level of prices.

The cumulative effect of the developments in the first 2½ months has been reflected in heavy borrowings from the Reserve Bank, and a drop in investments of member-banks. It has not been thought advisable to reduce cash balances as with a higher level of deposits and the opening of a large number of branches the cash deposit ratio was not considered high. The difficulties of banks in meeting the increased demand for assistance would not have been felt so acutely if deposits had continued to rise at the earlier rate. As it happened, between October 31, 1969, and January 16, 1970, there were additions to deposits of only Rs 78 crores against Rs 118 crores in the corresponding period in 1968-69. This slowing down in the rate of growth is somewhat intriguing as the task of projecting further growth under this head in the remaining months of the busy season has become difficult. It has been explained that the smaller increase in deposits latterly may be due to the absence of the usual window-dressing methods when closing the accounts for 1969 and that with the efforts to mobilise deposits and the opening of a large number of branches in the interior areas in recent months there must be, if anything, an accelerated growth of deposits in 1970 and the difficulties of banks in meeting the needs of all classes of borrowers may not be so acutely felt after the 1969-70 busy season had ended.

The Reserve Bank, however, has taken a serious view of the mounting pressure on the banking system and has imposed restrictions on advances against raw cotton, oilseeds, oils and foodgrains. Apart from raising margins in respect of these advances and imposing ceilings on limits it has been stipulated that a minimum of 10 per cent should be charged on credit extended against these commodities. The ceiling of 9½ per cent for other advances also has been removed. This move should be considered very significant as over and above selective credit controls, a dearer money policy is also being introduced without bringing about actually an increase in the bank rate. It was not expected that monetary authorities would adopt such a drastic course as it has not been explained so far what exactly are the factors that have been responsible for the sudden increase in advances and whether any unhealthy trends have emerged.

There is no doubt considerable speculative activity in raw cotton and oilseeds which has been responsible for a sharp rise in prices in the past few months. The revised estimates of the cotton crop for 1969-70 place the yield at only 58 lakh bales while it had been earlier hoped that the output would be much higher at 62-63 lakh bales. With a rising level of consumption and delays in arranging for imports of cotton there has been a disconcerting increase in prices for all grades of cotton and it is feared in industrial circles that a situation similar to the one that prevailed in 1967-68 may develop again if efforts are not made immediately to arrange for sizable imports of cotton and staple fibre. What is more important is the introduction of measures which will raise the yield of the Indian crop as with a higher level of purchasing power of the rural population there is bound to be a larger demand for cotton fabrics in the coming years and therefore a significant increase in the consumption of raw cotton. The problems relating to the availability of oilseeds are even more intractable as in spite of a fairly good crop of groundnut and other oilseeds it has not been possible to prevent a sharp rise in prices because of a substantial improvement in demand for edible oils. The proposals for importing large quantities of soya bean oil and sunflower oil may be helpful to a certain extent, but oil prices cannot be controlled unless internal production is substantially raised.

V. B. being out of town, the feature 'The Moving Finger Writes' will not appear in this issue and the issue dated February 13.

The undesirable rise in prices fo these two commodities alone has not been responsible for the unexpected pressure on the banking system. An accumulation of sugar stocks has been taking place in a big way as in the first three months of the current crushing season alone stocks have increased by 2 lakh tonnes and with an estimated output of about 7 lakh tonnes in January fresh additions to stocks may be of the order of 4 lakh tonnes necessitating the locking up of funds to the extent of over Rs 45 crores. The higher prices for steel and other commodities and the larger inflow of imports also have had a further complicating effect.

A clear picture can be had only by the end of May this year as it is not known what will be the effect of the record output of foodgrains in 1969-70 which is now estimated to be as much as 100-102 million tonnes following satisfactory winter rains in the wheat-growing areas in northern India. If these estimates prove to be correct, as they are likely, there must be a decline in prices for foodgrains of different kinds and for other commodities. The Reserve Bank should not, therefore, adopt an unduly restrictionist policy as it is abundantly clear that the financial position of industrial units which have incurred large expenditures on expansion and modernisation schemes is somewhat strained and the working capital requirements have to be found to a greater extent than before through bank finance. If with the adoption of measures for regulating inventories and brisker marketing of finished goods there could be a better utilisation of available resources, a further increase in the price level could be avoided.

The government too can ease the pressure on the money market by effecting prompt payments against outstanding bills and making adjustments also in regard to bank advances against foodgrains for the creation of buffer stocks. A careful watch has necessarily to be maintained on the money market for some time as on the basis of recent developments borrowings by member-banks from the central banking institution can increase to nearly Rs 300 crores by the end of March, these amounting to Rs 164 crores even on January 16, 1970. This level has not been reached at any time

in past history, but it cannot be considered unhealthy as the whole situation can get corrected in the ensuing slack season with a continuing rise in deposits and adjustments to meet the needs of a new situation.

Starved Spindles

COTTON AND staple fibre have been prominently in the news, particularly since the beginning of this year. Contrary to hopes of lower prices prompted by prospects of a better crop than the last season's 5.2 lakh bales, cotton prices lately have risen steeply. Not only has concern been expressed by both the mill-owners and the authorities over the recent sharp rise, but some remedial steps also have been recommended or announced. Thus, the Indian Cotton Mills' Federation met a few days ago to discuss the problem and the Federation president followed it up by calling on the Minister for Foreign Trade to impress upon the government the urgent need for bringing some discipline in the cotton market by allowing imports of two lakh bales of staple fibre and three lakh bales more of cotton. On its own part, the Federation has gone ahead with its Cotton Development Project for 1970-71 by sanctioning a handsome budget of Rs 26 lakhs to take care of an area of 2.25 lakh acres under intensive cultivation on scientific lines.

Alongside attack on the problems on the supply side as above, the authorities have also attempted to tackle the demand side in a number of ways. Thus, they revised the stock limits of Indian cotton which could be held by mills as, for instance, by enforcing them at 2 to 2-1/2 months' stocks for mills in the city limits of Bombay and Ahmedabad. This was followed by the further restrictions imposed by the Reserve Bank on bank advances against cotton and *kapas* to textile mills and also to parties other than textile mills. Besides imposing a margin of 40 per cent on cotton mills' advances against cotton and *kapas* and of 60 per cent on others, the Reserve Bank also raised the ceiling rate of interest on advances against cotton (also foodgrains, oilseeds, vegetable oils and vanaspati) from 9.5 per cent to 10 per cent.

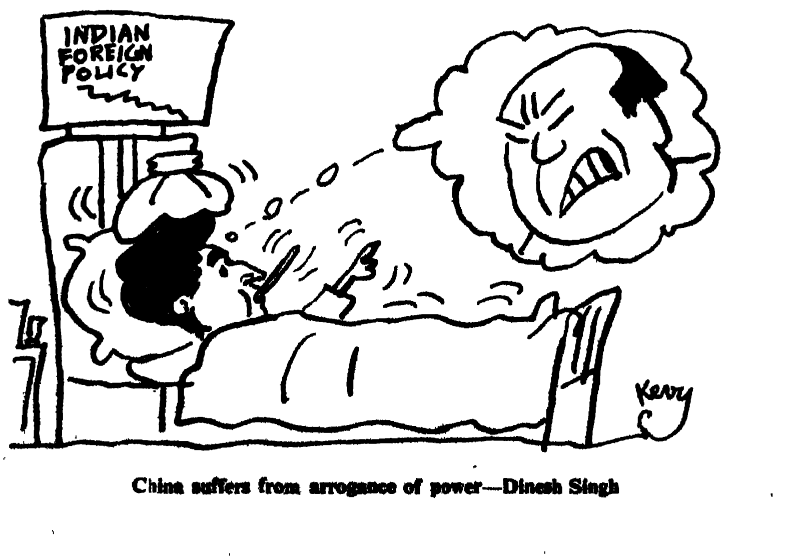
But all these are just palliatives which leave the basic problem practically untouched. The basic problem is to augment supplies not so much by resort to imports which entail expenditure of precious foreign exchange the country can ill afford today, but by raising the per acre yield of cotton as has at long last been realised by our textile interests, as witness the ICMF's laudable efforts to bring more cotton acreage under its scheme of intensive cultivation by assuring all the required inputs. But, then, there are limitations to even this laudable approach, limitations both financial and, more than that, limitations imposed by the availability of cultivable area that can be put under cotton, especially when the need to augment our foodgrains production is no less exacting and urgent.

Surely, all this cannot be unknown to the authorities in the capital, which is what makes their reluctance to allow augmentation of the existing capacity for producing man-made fibres not only ununderstandable but positively intriguing. In spite of the notable progress that the man-made fibre industry has made since 1951, as claimed by the Association of Man-made Fibre Industry, the total production of all the 18 units engaged in this industry in the country in 1969 was no more than 1,10,000 tonnes, which gives a *per capita* consumption of a meagre 0.2 kgs. In striking contrast are the *per capita* consumption figures of 2 kgs. for the world (average), 4.9 kgs. for western Europe, 6.3 kgs for the UK and 9 kgs for the USA.

That there is both growing demand for man-made fibres and available indigenous facilities straightaway to augment their production was strikingly brought out when a team of 27 leading mill-owners visited the Gwalior Rayon's staple fibre division at Nagda, Madhya Pradesh. It is clear that their visit was prompted by their urgent need for more supplies of raw material to keep their spindles and looms in operation. Mr N. Damodaran, the Managing Director of Premier Mills, Coimbatore, was speaking for the industry, not merely for the 27-member team of visitors from the south to Nagda, when he stated that right now the spinning industry in the south was in a position to lift 300 tonnes of fibre everyday! Contrast this with the maximum production of the biggest fibre-making unit in the country—Gwalior Rayon—of only 190 tonnes per day. It is not surprising, therefore, that the universal feeling among all mill-owners in India today is that the production of staple fibre should be increased without further delay. (The import of two lakh bales of staple fibre that Mr Radhakrishna Ruia, the ICMF Chairman, urged the other day serves only to underscore this).

Can India step up its production of man-made fibres ? If Mr D. P. Mandelia, Special Adviser to Gwalior Rayon, is to be believed (and he has been in the field long enough to stand any challenge) Gwalior Rayon has developed enough technical know-how not only to produce rayon grade wood pulp from even hardwood but also to manufacture the entire plant and machinery for the production of pulp or staple fibre. He was not boasting (which he is not given to any way) when he stated: "If only the authorities would appreciate the difficulties of the spinning units and permit expansion of staple fibre production, more supplies can be made available to them by Gwalior Rayon." Perhaps the Government of India needs to be prodded by the Chief Minister of Madhya Pradesh, even as it is being proded by the Chief Minister of Gujarat in respect of the Mithapur project of Tatas, to make it take a decision early.

It is not enough merely to allow an expansion in the capacity of the man-made fibre industry. Some other steps are also called for, as Mr S. P. Mandelia, President of the Association of Man-made Fibre Industry, stated recently at a fashion show in Bombay of fabrics made entirely out of man-made fibres such as rayon, nylon, polyester, viscose, staple fibre and acetate yarn. This in-



China suffers from arrogance of power—Dinesh Singh

dustry is today subject to a tremendous burden by way of excise duty which its counterparts in even some of the most advanced countries are not subjected to. The duty is utterly disproportionate and hampers the growth of the industry, particularly as the costs of various raw materials that go into the making of these fibres have gone up considerably. If the industry is to make its full contribution—and no one can deny the need for it both because of the need to export and the necessity to make the fibre reach the common man, who, by the way, has taken to it—"the ever-increasing burden of excise duty must be substantially reduced", to quote Mr S. P. Mandelia. If the total capacity of the industry is allowed to be expanded, which should be done by adopting all means possible, and if the heavy incidence of the excise duty is reduced, which should be possible when presenting this budget, the man-made fibre industry would kill not two, but three birds at one stroke : it will supplement the supplies of raw materials to our textile industry, it will both save and earn foreign exchange, and it will increase the *per capita* availability of clothing material to the common man.

Tea Producers—Old And New

THE TEA Board of India, in its publication *Tea Statistics 1968-69*, released recently, has given an idea of the progress made by the new producers of tea in different parts of the world. Though we will continue to remain for many years the world's largest tea producer, we cannot afford to ignore the increasing competition that our tea is facing from other producers. This competition is felt acutely in Britain, our largest market, as well as in other countries.

The Tea Board's publication reveals that tea production in east Africa (Kenya, Uganda, Tanzania and Malawi) increased from 16,738,000 kg in 1951 to 68,661,000 kg in 1968, the yeild per hectare from 715 kg to 999 kg and the area under tea from 23,395 hectares to 68,706 hectares. The othe rnewcomers are Japan, Formosa, Malaysia, Mozambique, Mauritius, USSR, Turkey and Argentina. The following table shows the area, production and yield of tea in these countries.

Countries	Area in hectares during 1968	Production in thousand Kg. during 1968	Average yield per hectare in Kg.
Japan	48,898	84,973	1,738
Formosa	35,775	24,239	678
Malaysia*	3,223	3,117	967
Mozambique	14,781	14,251	964
Mauritius	3,408	2,288	671
USSR*	71,709	57,335	800
Turkey*	23,472	21,786	928
Argentina	28,894	18,598	644

*Figures relate to 1967.

The Tea Board could have given the figures of these countries over a period instead of just one year. That would have facilitated comparison. The Tea Board has said nothing about Australia, Ethiopia and some other countries which also are reported to have started tea production in recent years.

So far as India and Ceylon, the traditional tea producers are concerned, the situation does not seem quite satisfactory. The yield per hectare of north Indian tea has not shown much improvement. Though it stood at 1,100 kg per hectare in 1968 compared to 1077 kg in the previous year, it was lower than in 1964 when it was 1102 kg. In south India the improvement in the yield was from 1215 kg per hectare in 1967 to 1306 kg in 1968. In Ceylon there was a steady decline in the yield per hectare from 949 kg in 1965 to 921 kg in 1966, and 911 kg in 1967 but in 1968 there was an improvement to 930 kg. The area under tea in Ceylon increased from 230,983 hectares in 1951 to 241,795 hectares in 1968 and production from 147,997,000 kg to 224,806,000 kg in the same period.

A significant fact about the new producers of tea is their light burden of taxation. Kenya levies an annual acreage cess of 1 sh. per acre and a manufacturing cess of 2 sh. per 100 lbs of made tea. There is no excise or export duty on tea. Uganda also does not levy any excise or export duty but only a cess of 2 sh per 100 lbs of made tea. In most other producing countries also, the tax burden on tea is negligible. In our country, on the other hand, both the centre and the state governments levy too many taxes on tea. The Borooah committee has revealed that state governments and local bodies levy as many as 16 kinds of taxes on tea but, surprisingly, the Tea Board has no data about the revenue derived from each of them. Commenting on the impact of taxation, the Borooah Committee has said: "We are of the opinion that the policy of taxation followed by the central and the state governments together with the various statutory obligations imposed on the industry, entailing disproportionate expenditure on welfare measures for the labour, is mainly responsible for the decline in the profitability of the industry.... The prices at auctions do not bear any relation to the taxes imposed by a producing country as the taxes have to be paid by the producer from his sale proceeds. Unlike other industries, tea is not able to pass on the burden of the taxation to the buyer at the auction, by increasing its prices. The taxes imposed on tea must therefore be seen as taxes on production. Another peculiar feature of the taxation in tea is that although tea is an export-oriented industry, the sales for the internal market bear a lesser burden of tax than those for export. This is at variance with the accepted practice in respect of other commodities which are important in connection with our export earings."

The tea industry has been repeatedly urging the Government of India and the state governments to reduce and rationalise taxation but they seem to be in no mood to oblige. It is doubtful if the central budget for 1970-71 will provide any substantial tax relief to this industry. At best it may get a further relief in export duty while, perhaps, increasing the excise duty at the same time, so that the exchequer may not lose. But such a course will not help the industry to strengthen its competitive power.

Meanwhile, our competitors are successfully encroaching on our traditional markets. For instance, in the first six months of 1969 compared with the similar period of 1968, tea imports from our country into Britain were down by 37 per cent in quantity and 47.6 per cent in value while imports from Kenya were higher by 2.2 per cent in quantity and 9 per cent in value and imports from Uganda were higher by 76.6 per cent in quantity and 55 per cent in value. The trend is shown below :

IMPORT OF TEA TO THE U.K. FROM MAIN PRODUCING COUNTRIES

Quantity (in 000 lbs) Value in 000£

Country	January-June 1968	January-June 1969	January-June 1968	January-June 1969
India	103,445	64,809	21,177	12,062
Ceylon	75,909	76,852	15,246	14,352
Kenya	222,774	227,841	4,388	4,815
Malawi	15,438	16,429	2,742	2,719
Tanzania	6,249	8,207	1,220	1,433
Uganda	4,703	8,316	902	1,415
Indonesia	5,823	4,679	860	663
China	3,658	2,772	485	356
Argentina	6,634	4,041	883	486
TOTAL ALL COUNTRIES	280,117	248,204	53,378	43,008

The time therefore has come for the Government of India to cease looking upon tea as a major source of revenue. Instead, it should strengthen the industry's competitive capacity and enhance its earnings of foreign exchange. In 1953 the share of tea in our total export earnings was 19.87 per cent. It was higher at 24.36 per cent in 1956, But in 1968 it was only 12.66 per cent.

For Ceylon the share of tea in her total export earnings was 52.62 per cent in 1953 and 57.05 per cent in 1968 though during this period it varied between 60 and 66 per cent in certain years. At a time when our export drive has received a set-back, it is all the more urgent that government should consider the tea industry's difficulties with the utmost sympathy and speed.

Public Plus Private

GOING ROUND the Lube India plant in Trombay, which is to be formally inaugurated by the Vice-President of India on February 12, 1970, one could not but experience a somewhat mixed reaction—of satisfaction as well as concern—satisfaction because of the splendid accomplishment that has been achieved by this joint enterprise (the project is jointly owned by the Government of India and Esso on a fifty-fifty equity basis) and concern because of the avoidable controversy over what crude to use—Arabian, Iranian or Rustom. Controversies could no doubt end, but they do not unfortunately, certainly not so long as purely economic considerations are not allowed to operate and politics tends to project itself.

Be that as it may, Lube India Limited (LIL) is a company that was founded in 1966 (incorporated on April 4, 1966) with an authorised capital of Rs 5.4 crores and a paid-up capital of Rs 4.8 crores contributed equally by the Government of India and Esso. With a paid-up capital of just Rs 4.8 crores, we have today a fully completed project estimated to cost Rs 17 crores, that is actually one crore of rupees less than what experts had assessed it would cost (Rs 18 crores) in 1967. Incidentally, this is the second joint project in respect of which we have heard there has been a reduction of cost in the new year, the first being the Tarapore Atomic Power Project where the reduction of cost is stated to be about five million dollars. This is what strict cost control measures, the value of which we have only lately begun to recognise, have been able to achieve. Now, for the remaining finance, LIL negotiated a loan of Rs 5.64 crores (in dollars) from the Manufacturers' Hanover Trust Company and a further Rs 6.4 crores (in rupees) from the US Agency for International Development (Cooley Loan). Had the project cost Rs 18 crores, as had been estimated originally, the two shareholders (Government of India and Esso) would have been called upon to advance Rs 60 lakhs each, a procedure admittedly more advantageous than the raising of further equity entailing payment of dividend in dollars, but, fortunately, it has not.

LIL is the fruit of the combined efforts of Esso Research and Engineering Co. of USA (who provided process engineering and basic design of most of the on-site and off-site facilities), Snam Progetti of Milan (who did the detailed engineering, procurement and construction) and their Indian associates Engineers India Ltd (a Government of India undertaking). Another foreign collaborator was the Selas Corporation of Holland, who designed and built the hydrogen generation plant, so necessary to any lubrication base stock manufacture. It is the proud claim— justifiably so—of those in charge of the project that the maximum use was made of both local materials and services.

The LIL plant is situated on a 60-acre site in Trombay adjacent to the Esso Refinery. Esso supplies the feed-stocks of 19,400 barrels of reduced crude from which LIL extracts 3,300 barrels of basic stocks and return the residue to the Refinery. It is the fourth lubricating oil plant in India but the first and the only one of its kind on the west coast of India, the other three being those at Digboi (capacity 1,100 barrels per day) Barauni (900 barrels per day) and Madras (3,800 barrels per day). One more is expected to come up at Hadia (also of a similar capacity of 3,800 barrels per day). Even when all the five units attain and work to their full capacity, as they are expected to do in 1972, there would still be a shortfall between total production and estimated demand of 140,000 tonnes, we are told.

The LIL plant is designed to produce 164,000 tonnes of lube oil base stocks per year, most of which are motor oil base stocks, *i.e.*, of a relatively high viscosity. There are three streams of motor oils and three of industrial oil, besides the transformer oil stream. Five processes—a series of blocked operations—are involved in the making of these base stocks—vacuum distillation, solvent extraction, hydrofining, acid treating and dewaxing—and there are corresponding units—vacuum pipestill, phenolfiner, industrial oil hydrofiner, hydrogen and propane dewaxing—besides storage and shipping facilities. A notable feature is that the entire plant operations are controlled from a single, compact and centralised control room.

The LIL has an altogether new organisational structure. This is based on the concept of "polyvalence", which aims at developing and training technicians to handle all jobs pertaining to all skills, such as those related to instrumentation, welding, electrical machines, process operations and so on. Each one of the 120 men who will run the LIL plant has had training in every one of the operations of the plant, so that no operation need be handicapped if and when the person in charge of any particular operation is absent or otherwise engaged. In a highly labour-intensive undertaking such as this, this arrangement is perhaps essential.

On the present basis of working, Lube India is expected to save Rs 6.3 crores every year in foreign exchange, which is not inconsiderable. But there are doubts as to whether this estimate would continue to hold good, especially if the Government of India were to insist on the use of its new favourite—the Rustom crude. Now, according to those who know, there are three varieties of crude: good, not so good, and not good at all. A particular variety may be good for a particular plant or a given process, inasmuch as these sophisticated lube plants are designed to suit a given process and after taking into account a given variety of crude. For instance, the Lube India plant is designed to operate on Arabian crude, which is the oldest crude in use. Another crude — Iranian crude— is also being produced for the past 20 or 25 years, but, even if this crude is used in Trombay, according to Mr Gray, it would result in a loss in capacity of 30 per cent, besides entailing additional equipment costing approximately another million dollars. As for Rustom crude which the Government of India is said to be keen on patronising, nobody seems to know much, inasmuch as it is a newly discovered crude and has been hardly used even for gasolene. Not until laboratory tests and tests on a pilot plant are made can one form any opinion about its suitability and the economics thereof.

Meanwhile, there would appear to be urgent need for some thought being bestowed on the size of lubricating oil units to be set up in this country. As noted earlier, the largest size of the units in India, both of those already commissioned and of those to be, is no more than 3,800 barrels per day, as contrasted with Esso's major lube projects, each of whose capacity is around 50,000 barrels per day. Of course, this size has been attained over 40-50 years. Moreover, the availability of crude also determines the size of lube plants. Unlike India, America is not short of assured supplies of refined crude. In view of this, what is denied to us by way of economy of size should at least be sought to be made good by other economies, such as those that could be expected from quality and price. Unfortunately it is precisely here that the powers that be seem to be dragging their feet.

On page 135 of 'Eastern Economist' dated January 23, 1970, in the article 'Frankly Speaking', in the sixth line, please read Prof. John Hicks instead of Prof. Arnold Hicks. The error is regretted.

Advertisement

THE DANGER AHEAD

C. RAJAGOPALACHARI

The famous non-alignment policy of India is in rags. Here is how the New York Times columnist Sydney Schanberg describes it. In matters of this nature, the impression we give to other nations is more important than what we may have in the secret of our hearts.

> India's policy of non-alignment has come to mean a policy with a pro-Soviet anti-West bias. For example, last year despite pressure from members of parliament, Mrs. Gandhi refused to condemn Moscow for its invasion of Czechoslovakia. More recently India has been talking about establishing full diplomatic relations with East Germany and North Vietnam. A delegation from the National Liberation Front (the Communist Vietcong) is touring India at the invitation of the Government.

What leads the Union Government of India to prefer close association with Soviet Russia to friendly links with America, no one who is interested in the welfare and freedom of the Indian people can guess. Close association with Russia is more or less to be the road leading to satellitism within the Soviet imperial domain. And we know what that means. Soviet Russia has not left matters in doubt. The Breshnev doctrine and the treatment Czechoslovakia and Hungary received stare us in the face. We have practically broken irretrievably from the U.S.A.

As regards internal policies, we have enough indications as to what is in store for the people engaged in industrial production. Whatever convictions the Premier may nourish in her heart, it is clear that she is a prisoner held by scheming communists and immature extremists. She will be forced to obey those who give her the marginal support she needs to continue in office. Convictions yield to expediency when one is governed by desires which one is not able to control and reject as inconsistent with the great trust one has shouldered or rather inherited.

The paradox of a small group dictating what the government must do, as the elephant is led by the mahout sitting on its neck, is in operation.

We know, then, what the future of India's economy will be: Slogans instead of realities, socialistic exhibitionism without the prerequisite of increased and sustained production, and possibilities of getting free of our himalayan indebtedness shut out.

As for the administration, the signs and portents are clear enough for us to expect accelerated deterioration in the efficiency of officials and the disappearance of official discretion by reason of increased politicalization of officials. Democracy with all the handicaps which an ill-informed electorate gulled by demagogues creates, is rendered tolerable through the warnings and sound judgement which executive officials help ministers with. If this help is deliberately thrown away in the name of popular government, democracy will move nearer and nearer to misrule and chaos. The conservative principles that guide the British parliamentary regime and which make democracy work in cooperation with an experienced corps of officials, are all-important for efficient and well-ordered democracy as distinguished from the one-party rule that prevails in totalitarian States.

The question is urgent. We must now remove the dangers if we desire to be a free people in the real sense of the term. If we are apathetic and do not avail ourselves of the opportunities now presented to get the present Prime Minister replaced by a better and more dependable person, the nation's future is gloomy.

> There is a tide in the affairs of men
> Which taken at the flood,
> leads on to fortune;
> Omitted, all the voyage of their life
> Is bound in shallows and in miseries.

I repeat what I wrote a week ago. We are now in the valley of Decision. We must decide now whether we shall continue to live under liberty as free citizens, or exchange our condition for a regimented life as serfs and tools of an immature dictatorship. No one can plead that he is not a politician and he is not concerned and will look after his private affairs and leave politics to politicians. Private affairs become public affairs under the dictatorship which is in the offing. No man or woman can escape from the duty of making a decision as to what kind of rule we desire to prevail in our country. Indifference to this paramount issue is just as deadly to our freedom as the outright acceptance of a communist dictatorship.

Reproduced from the latest issue of 'Swarajya'

Privy Purses and Privileges

DR A. APPADORAI

ACCORDING TO authoritative reports (*i*) a Constitution amending bill is proposed to be introduced in the budget session of Parliament to do away with the privy purses and privileges of princes which were guaranteed to them at the time of their accession to the Indian Union, and (*ii*) allowances will be provided for some two decades to enable the princes affected by the Bill to adjust themselves to the change. Since the Bill is yet to be introduced, there is still some time for a fresh look at the problem and for public opinion to express itself:

It must be admitted, first, that in the two decades since India became independent there has been an emerging demand as crystallised in the resolutions passed at Ahmedabad (Organization Congress) and Bombay (Ruling Congress) in favour of the abolition : the continuance of the purses and privileges is considered an anachronism in an emerging democratic and socialist state.

Social Purpose

Privileges and inequalities in a democratic society must be justified by the social purpose they fulfil: to permit a select few to enjoy tax-free privy purses and feudal privileges, when millions do not even have the basic minimum, without the fulfilment of a corresponding social function, is immoral. It was in recognition of the growth of such a demand that Jawaharlal Nehru himself wrote to princes with a purse of over a lakh of rupees. thus beginning the process of negotiation, and (if reports are true) the response was not disheartening. But for some unknown reason the process was not continued. Later, talks were set afoot with the Concord of Princes, and apparently the talks did not result in a satisfactory response from the government's point of view. A unilateral abrogation of contracts, or political settlements, as Mr Chavan would call them—for a constitutional amendment is nothing but a unilateral abrogation—is thus proposed?

The question thus arises: Is this the best way of meeting the situation, admitting, as I said, that the anachronism must be removed.

Two points must be made. First, the number of beneficiaries involved, and the sums promised are not substantial, nor the privileges continued to be enjoyed important enough to be worth a unilateral abrogation.

The sums given as privy purses range in the original contract from Rs 50 lakhs to a few hundred rupees, the ceiling for the progeny being fixed at Rs 10 lakhs. The number of states whose rulers enjoyed a purse of over a lakh of rupees was not large. The total sum disbursed as privy purses is less than Rs 5 crores.

The Privileges Enjoyed

The list of privileges enjoyed by the princes includes the following: Permission of the Government of India is necessary for filing a civil suit against them, and they cannot be arrested on criminal charges, without the union government's permission; free medical attendance and treatment in government hospitals to the rulers and their families; the requisition or acquisition of properties used for residential purposes of the rulers cannot be affected without their consent or without payment of a reasonable compensation; articles intended for the personal use of several rulers are exempt from customs duty, the excise duty payable on petrol purchased by them is refunded to them; the right to fly their own flags on personal residences, cars and aeroplanes; armed guard at their official residence; permission to possess weapons and purchase ammunition without licences; and protection of their fishing and shooting rights.

Second, a unilateral abrogation is clearly a breach of faith. That was the view of Sardar Patel, whose wise handling of the problem brought about the bloodless revolution of the geographic, political and economic unification of India which for centuries had remained a distant dream.

Speaking in the Constituent Assembly, the Sardar said that the settlement of privy purses was in the nature of a consideration for the surrender by the rulers of all ruling powers, as also for the dissolution of the states as separate units. He added : "The capacity for mischief and trouble on the part of rulers, if the settlement with them would not have been reached on a negotiated basis, was far greater than could be imagined at this stage. Let us do justice to them; let us place ourselves in their position and then assess the value of their sacrifice. The rulers have now discharged their part of the obligation by transferring all ruling powers and by agreeing to the integration of their states. The main part of our obligation under these agreements is to ensure that the guarantees given by us in respect of privy purses are fully implemented. Our failure to do so would be a breach of faith." The Sardar's view was embodied in the following Articles of the Constitution.

291. Privy Purse Sums of Rulers.—Where under any covenant or agreement entered into by the Ruler by any Indian State before the commencement of this Constitution, the payment of any sums, free of tax, has been guaranteed or assured by the Government of the Dominion of India to any Ruler of such State as privy purse—

(*a*) such sums shall be charged on, and paid out of, the Consolidated Fund of India; and

(*b*) the sums so paid to any Ruler shall be exempt from all taxes on income.

362. Rights and Privileges of Rulers of Indian States.—In the exercise of the power of Parliament or of the Legislature of State to make laws or in the exercise of the executive power of the Union or of a State, due regard shall be had to the guarantee or assurance given under any such covenant or agreement as is referred to in Article 291 with respect to the personal rights, privileges and dignities of the Ruler of an Indian State.

People's Confidence

Is it wise, it may legitimately be asked, for a government which has entered into an agreement with another party to repudiate its part of the agreement unilaterally? For, let it not be forgotten, that a government depends for its strength not only upon the power it wields but also the confidence which people have in its willingness to honour its word. Gandhi equated means and ends; in his centenary year, the government should think a hundred times before it resorts to a "breach of faith", to use Sardar's expression.

In view of these two considerations, would it not be wiser, even at this stage to accept the offer of voluntary adjustments in privy purses reported to have been made by representatives of the Concord of Princes at their recent meeting with the union Home Minister? It is true that (*i*) in view of the constitutional provision that neither the Supreme Court nor any other court shall have jurisdiction in any dispute arising out

of any provision of a treaty, agreement, covenant, engagement, *sanad* or other similar instrument which was entered into or executed. . .by any Ruler of an Indian State and to which the government of the Dominion of India or any of its predecessor governments was a a party. . . .etc.,* legal action by the princes in Courts may not be sustainable; and (*ii*) it will be too theoretic a question for the princes to repudiate their part of the agreement and to revert to their independent status which they acquired on the lapse of paramountcy at the time of the transfer of power. But the inability of the princes to take any action in the circumstances is not a justification for insisting on the repudiation of an agreement through an amendment of the Constitution when the offer of voluntary adjustments—though somewhat late on account of the reported approval of the cabinet to the introduction of the Constitution Amendment Bill—has shown an honourable way out. In any case it is not too late. In *The Story of the Integration of the Indian States*,† V.P. Menon wrote in 1955 :

"They (the princes) are now bereft of any bargaining power. Because a creditor is too weak or poor to enforce his rights, a debtor should not, in honour, refuse to discharge his debt. As an honourable party to an agreement, we cannot take the stand that we shall accept only that part of the settlement which confers rights on us, and repudiate or whittle down that part which defines our obligations. As a nation aspiring to give a moral lead to the world, let it not be said of us that we know the 'price of everything and the value of nothing'."

These are wise words and the government will do well to accept the offer of voluntary adjustments and not to proceed with the introduction of the Constitution Amendment Bill. The object will be achieved, and there will be no breach of faith.

* Article 363.

† p. 488.

Merchant Banking

SUHAS JOSHI

THE SECRET of American banks wresting sizable business from European banks in the face of domestic competition is said to be their ability and drive to finance export business with the help of their wide range of contacts and information. The challenge of financing more formidable and risky export projects, beyond the individual capacity of an American bank, has even encouraged them to form a consortium as is evident from a recent decision of a group of 40 US banks to set up a 100-million private company to finance exports of such items as jet aircraft, jointly with the Export-Import Bank in Washington. One of the US banks—First National Bank of Boston —has very recently secured financing and developing a port in Yugoslavia for the first time in the history of US banks. The British banks, perhaps as a result of the impact of these American banks, are now increasingly anxious to enter the international field of finance and are also keen to use the American techniques in respect of developing countries. The Chartered Bank in India started an international banking division last year and the National and Grindlays Bank Limited has also opened a merchant banking division. The latter bank seems to be keen to develop this department as recently Lord Aldington, the Chairman of National and Grindlays Bank, visited this country to examine various possibilities of assisting our exporters through this division. Besides, the bank's manager of this department is at present touring some foreign countries to meet potential buyers of Indian goods.

Further, the proposal of the International Finance Corporation to set up a full-fledged merchant bank for India in Calcutta, received spontaneous response both from the industrialist-exporters and some of the Indian banks. The then Finance Minister, Mr Morarji Desai, also welcomed this project as such a merchant bank, though its function may overlap to some extent with those of term-finanching institutions such as IFC and commercal banks, would strengthen the existing network of institutions by providing project or export finance and other services through its foreign resources and contacts.

It is pertinent to note here for the benefit of those interested in the history of banking industry that similar attempts to establish such banks were made in the last century, but such proposals were stalled by the steep opposition of exchange banks already operating in the country. In order to protect the interests of the exchange banks, by avoiding competition with them, the Presidency Banks' Act of 1826 regulated and restricted the business of the presidency banks, which were prohibited from transacting foreign exchange and remittance business between India and the overseas countries. Though no such legal restrictions prevailed in respect of the joint stock banks they did not enter into the field of foreign exchange in the face of keen competition from the exchange banks. Besides the close relations between the agency houses, that managed the exchange banks, and the East India Company served as a handicap against any Indian bank in undertaking this business.

In order to serve as a link between foreign banks and Indian business, the first proposal for the incorporation in London of an Anglo-Indian bank, named the Bank of India was made in 1836 after the agency houses had all come to grief in 1830. It was proposed that this new bank should do all banking business for the government and also foreign exchange business. In view of the opposition of agency houses and the Bank of Bengal, the charter was refused to this new bank. Another attempt was made in 1840 when the Bank of Asia also met with the same fate. Gradually during the present century, the exchange banks became less powerful in preventing the entry of Indian banks into the realm of export-finance, with the result that many scheduled commercial banks not only opened their branches in foreign countries such as Britain, Japan and Africa but also set up foreign exchange departments and very recently foreign exchange development departments.

Important Issue

The recent announcement of the State Bank of India of starting an international division well-equipped to offer comprehensive service of planning and development of foreign exchange business has raised an important issue as to whether the other nationalised banks should undertake merchant banking functions. Before going into this problem, it is necessary to analyse merchant banking functions. Traditionally merchant banks in Britain constituted accepting houses and their main business was concerned with acceptance credit for financing international trade and the raising of loans for overseas borrowers by new capital issues. But today the term 'merchant bank' has become widespread to embrace a wide range of activities. Apart from engaging in domestic finance, these banks in Britain extend legal advice, prepare schemes of amalgamations and takeovers, investment advice, hire-purchase and leasing finance, factoring business, consultancy services, etc. These banks have no longer remained only financial institutions but are being developed on the pattern of "departmental stores" where the customer once he enters could avail of all services.These banks through

their correspondents abroad and research departments at home are equipped to appraise trade and business climate of different countries and provide qualified guidance on joint ventures, obtain credit information on foreign merchants, provide technical guidance on documentation, regulations and finance. They help to raise funds in foreign markets and provide sterling and Euro-dollar loans.

The issue of allowing the Indian commercial banks to undertake merchant banking functions in view of the new role assigned to these banks in respect of the priority sectors that include export promotion, is intimately linked with the problem of maintaining competition among these banking units in respect of foreign business. It is therefore necessary to consider whether any functional regrouping is possible to cater to the credit needs of the foreign trade.

It is argued that competition is quite essential to improve the efficiency of banking operations. But various surveys carried out particularly in America point out that banks generally do not like to engage themselves in price competition and hence the associations of banks have devised ways and means of curbing competition among the member-banks. Price competition virtually does not exist in banking industry and moreover the central banks try to regulate competitive forces as otherwise unbridled competition would invite banking disasters.

Wasteful Expenditure

Though some form of competition is essential for effective deposit mobilisation, for inculcating banking habit, such a competition is likely to result in wasteful expenditure in respect of foreign business. Engaging in international field of finance presupposes a good network of foreign branches at least in world financial markets, and it is beyond the individual capacity of a bank to maintain such a network of branches in foreign countries. In fact, Indian banks' foreign branches are either being taken over or more restrictions have been imposed on them by turning them into subsidiary companies as a result of the surging tide of socialism in many countries such as Tanzania, Libya, Aden, Uganda, Nigeria, etc.

It is, therefore, essential to establish a separate institution—like an Export-Import Bank—to manage the foreign branches of these banks. Though a committee has been set up to examine this issue, official opinion seems to be to establish two such institutions—one for managing 11 branches in Malaysia and the other for the remaining 47 branches operating in other foreign countries.

Such a specialised institution for dealing in foreign exchange business is likely to avail of the economies of scale and could also be more efficient than the individual bank, ensuring optimum utilisation of foreign resources. Another advantage of this institution is that it can bring together the intimate and specialised knowledge of each bank, as it could draw upon the personnel of foreign exchange departments and foreign branches of these banks. Thirdly, such an institution can function more intimately with such government institutions as STC and MMTC which are engaged in export promotion. Further, it is possible for this institution to take over the function of the IDBI, which has started aiding manufacturer-exporters on the lines of the Exim Bank, or can draw upon the experience of National Industrial Development Corporation, which has rendered consultant engineering services effectively through its Technological Consultancy Bureau during the past nine years.

The dissociation of foreign exchange business from the nationalised banks might slightly effect their profitabilty but this would give them much elbowroom to concentrate on domestic functions such as deposit mobilisation and domestic finance. Undertaking merchant banking functions by every nationalised bank at the present juncture would result in dissipation of their energies over a wider field of activities, straining their resources both financial and manpower and would distract them from the new domestic responsibilities.

Promoting Soya Beans

P. S. SHARMA

SOYA BEAN is the seed of a leguminous plant grown extensively in temperate zones with a hot and damp summer. It is a member of the 'peas family' and finds mention among beans and pulses.

Soya beans have a low oil content in comparison with other oilseeds. The average extraction rate in the USA, the largest world producer, is about 18 per cent compared with over 40 per cent for groundnuts and 64 per cent for copra. On the other hand, they are very rich in protein containing usually 40 per cent or more of this constituent on a moisture-free basis. Taking the world as a whole, its oil is the largest single source of edible vegetable oils and accounts for about a quarter of all edible vegetable oils supplies. Soya bean cake and meal is the principal high protein oil-cake for feeding the livestock and is nearly half by volume of all oil-cake supplies. It has a distinctly higher biological value than that of other oil-cakes and is of particular importance in the feeding of pig and poultry.

Soya beans, processed by traditional method of fermentation, have been consumed for centuries in eastern Asia, from where they originated. Only during this century they have become important as a source of vegetable oils and meals and their use for this purpose has expanded to the rest of the world. Now-a-days, taking the world as a whole, demand for soya beans for direct consumption, although still substantial in some countries, is much smaller than for crushing. Soya bean meal is used as a concentrate for animal feed and this is as high as 96 per cent of the total production in the USA. In east Asia, soya bean serves the purpose of food both for human beings and animals. The bean is either pre-digested with moulds or extracted for milk which may be used as such or processed in different ways. The residue is fed to animals. The main uses of soya bean oil after refining, bleaching and deodorisation and partial hydrogenation are in the manufacture of margarines and shortings. The unhydrogenated oil is also used in blending with other oils but its tendency to revert when exposed to air or high temperature had severely limited its use. It is also consumed in the form of salad or cooking oil, although the proportion of soya bean oil going in the manufacture of edible fats for consumption as salad or cooking meals varies from country to country according to different eating habits. Soyabean oil is also used extensively in the manufacture of drying oil products, paints and varnishes, resins and plastics. In India and Pakistan, soyabean oil is used to a large extent in the manufacture of vanaspati. In all these uses, soya bean oil competes with all edible/soap fats and oils excluding unedible tallow.

The relative importance of the two products obtained from crushing soya beans, *viz.*, soya bean oil and soya bean meal has changed over the years. Between the two world wars, soya bean oil was the more important of the two products. World demand for fats and oils was expanding rapidly along with population growth and improved stan

dards of living, while demand for oil cakes and meals was developing more slowly as the animal feed stuff industry was still in its infancy. Under these circumstances. soya bean was in an unfavourable position relative to most other oilseeds owing to its low oil content and indeed world production stagnated at around 12 million tons per annum while oilseeds with a higher oil content showed substantial increases.

The situation changed after World War II. As a result of the rapid expansion of the livestock industry and the improvement in feeding practices which began in the United States and spread to western Europe and Japan, demand for oil cakes as high-protein feed increased sharply and much more rapidly than demand for fats and oils. Soya beans, with their high cake contents, were, therefore, well-placed to meet this rapid increase in demand for high protein feeds. This helped to stimulate soya bean production which has currently reached 41 million tons and represents a three-fold increase during the past three decades. Production of the other major oilseeds increased much more slowly in the same period, varying from 50 per cent to 70 per cent.

World Production

The world production of soya bean went up from about 16 million tonnes in 1948-52 to 41 million tonnes during 1967-68. The USA and China between them account for over 90 per cent of world production of soya bean, while output in other countries is relatively small. The crop is also important in Canada, Brazil, Indonesia, Japan and the Soviet Union. In Indonesia and Japan, it is mainly consumed directly, although Japan is a major importer of foreign beans for crushing. During 1967, the production of soya beans in the USA was reported to be as much as 26.5 million tonnes. Official estimates of area and production for China are not available. However, according to unofficial estimates, the production of soya beans in China was estimated at about 12 million tonnes in 1967-68 (preliminary) constituting about 29 per cent of world output.

Per hectare yield of soya bean varies from country to country and also from season to season. Generally, the yield is found to be the least in China (800 kg.) and the highest in Canada (2,000 kg). In the USA, the world's largest producer of soya beans, the yields have varied in recent years from 1500 kg to 1700 kg.

World exports of soya beans and soya bean oil have shown a steady increase during the last decade. Exports of soya beans (oil basis) moved up from 4.8 lakh tonnes in 1955 to 13 lakh tonnes in 1967. Oil exports during the same period rose from 0·6 lakh tonnes to 5.7 lakh tonnes. The USA accounts for the bulk of the exports of soya bean oil. The export market for the US soya bean oil is basically different from that for soya beans. Western Europe, Canada and Japan generally prefer to import soya beans only. These countries employ domestic crushing capacity and, in addition to oil, obtain valuable soya bean meal. They also sometimes export surplus oil from their own crushing operations. In the USA, the crushing of soya beans has increased rapidly in recent years. In 1967, the production of soya bean oil in USA was about 6.8 billion pounds (3.0 million tonnes) as against 2.6 billion pounds (1.2 million tonnes) in 1951. Although domestic market in the USA absorbs a large part of the oil produced, there is a growing surplus which does not rapidly get disposed of through normal export channels. For this reason, a considerable part of oil exports moves under Title I of PL-480, the main recipient being Pakistan, Turkey, Egypt, Morocco, Tunisia and, of late, India. However, despite PL-480, shipments, the heavy crushings in the USA have resulted in a considerable rise in oil stocks. During 1967, the carry-over stock of soya bean oil in that country was estimated at 500 million pounds.

Easy Extraction

The crude oil from soya bean seeds is obtained by pressing or through solvent extraction methods. Of all the oilseeds, soya beans are solvent extracted most easily. In the USA, about 90 per cent of the soya beans are solvent extracted. Solvent extraction completely supplants mechanical expression for large scale recovery of oil from soya beans. Previously, soya beans were seldom decorticated before processing (except where the meal was destined for human consumption) because of mechanical difficulties and because the hull constitutes but a small part of the seed (7 per cent) and is relatively non-absorbent. Today dehulling has become increasingly common to produce low fibre meal. While extraction with solvents constitutes the most efficient method for the recovery of oil from any oil-bearing material, it is relatively advantageous in the processing of seeds or other material low in oil. The minimum oil-content to which oil-cake can be reduced by mechanical expression is approximately the same for all oils, *i.e.*, about 2-3 per cent when pressed with high pressure expellers and about 6-8 per cent when pressed with low pressure expellers. Consequently, the oil unrecoverable by mechanical expression in terms of percentage of total oils increases progressively as the oil content of the seed decreases. By 'prepressing' the seed in low pressure expeller, it is possible subsequently to solvent extract high oil content seeds that are difficult to handle in their original form in conventional equipment. In India, this practice is prevailing as in some European countries for oilseeds such as groundnut, cotton seed etc. In Europe it is the general practice to extract whole soya beans.

Soya bean is cultivated in our country in the northern hill regions from Kashmir to Nagaland, primarily for local consumption as a kharif crop. An *ad hoc* estimate framed in 1958 put the area under soya bean at 43 thousand acres with a production of nearly 6 thousand tonnes. The production and area figures of soya bean for the subsequent years are not available. But it can be safely assumed that the area would not have changed much.

Various Uses

The various uses to which soya bean products can be put have already been indicated. In our country the demand for soya bean arises from the following uses:

(i) Soya milk can be prepared as an infant food. It lacks calcium, vitamins and lactos but can be made nutritive by fortifying it with the elements it lacks. Work done on soya bean milk and milk products at the Indian Institute of Science, Bangalore, has indicated that curd can also be prepared from soya milk in the same manner as from cow milk. The soya milk forms a sweeter curd than cow milk. Soya milk is also made into a kind of cheese called 'tofu' in China and Japan. Tofu is described in the east Asian countries as 'meat without bones'.

(ii) In the USA and some other countries, methods have been devised for mechanical processing of soya bean on an industrial scale for eliminating its disagreeable flavour. Soya bean flour is mixed with other flours for the manufacture of biscuits, bread and allied products. This can also be tried in our country.

(iii) Demand for soya bean oil has increased in this country in recent years, particularly for the manufacture of vanaspati. In 1961, about three thousand tonnes of soya bean oil was imported into India for the first time on an experimental basis. It was successfully processed into vanaspati with the technical assistance of the Soya Bean Council of America. Since then, vanaspati industry has been interested in using

soya bean oil. Since September 1966, import of soya bean oil from the USA under PL-480 is being made by the State Trading Corporation of India. During 1967-68, 52,000 tonnes of soya bean oil was imported. With the increase in the import of soya bean oil, the percentage of this oil in the manufacture of vanaspati has gone up from 0 7 per cent in 1961 to 19.2 per cent in 1967.

(iv) For meeting the feeding needs of milch cattle and poultry, soya bean cake is very nutritious. Soya bean meal is reported to have augmented milk production in milch cattle in the USA.

(v) There has been significant demand in our country for soya meal and oil which are important raw materials in the manufacture of antibiotics such as penicillin, streptomycin, etc.

(vi) High protein food manufacturing industries have also put forward their demand for soya beans.

Leading Role

The experimental station at the UP Agricultural University, Pant Nagar, has played a leading role in the soya bean improvement programme. A special centre for soya beans improvement work has been set up in this university in collaboration with Jawaharlal Nehru Krishi Vidyalaya, Jabalpur, and the University of Illinois and is partially financed by the Indian Council of Agricultural Research. Large varieties of soya beans imported from the USA have been tested here along with the local varieties. The experimental station on the basis of experiments has also recommended certain agronomic practices, seed treatment etc., and has done useful work on the development of machinery for mechanising soya bean cultivation. It has also developed soya bean threshers.

On the basis of experimental data available, two varieties, namely, Clarke 65 and Bragg, were picked up for large-scale multiplication in terai areas of UP to make up the deficiency of the seed. The National Seeds Corporation has also undertaken successfully seed multiplication of the available limited stocks.

Under the Co-ordinated Soya Bean Research Programme, it is reported that diversification of soya bean cultivation is possible over large areas of the country. The suitability of hill areas and terai areas for soya bean cultivation is already well-established. New varieties have also been located which can be successfully grown in Maharashtra, Gujarat, Andhra Pradesh, Mysore, Madhya Pradesh, etc. There is a keen demand from growers in these areas. The expansion of demand for soya bean will ultimately determine the extent to which the production will have to be expanded in suitable areas and diversification of varieties will be explored accordingly. Out of old varieties. Punjab-1 may be grown in Kangra district of Himachal Pradesh and Type-49 in UP hill areas. Clarke-63 and Bragg are the two suitable varieties for the northern India plains. The following four varieties from the USA have been introduced for diversifying the following varietal pattern:

1. Improved palican 2. Hardee	For northern plains upto central India.
3. Lee 4. Hill	Hill regions (Lee for central India as well).

There is good scope for growing soya been as a mixed crop with maize in the hills and with maize and cotton in the plains. With a view to bringing down the cost of production of soya bean, the introduction of mixed cropping in large areas would be recommended.

The National Seeds Corporation and the UP Agricultural University, Pant Nagar, have already taken up a large-scale seed multiplication programme for soya bean seeds. Already, steps were taken to import 44 tonnes of seeds of selected varieties from the USA during 1968-69. As such, sufficient quantities of seed will become available during 1969-70 and onwards and there will be no difficulty in the availability of soya bean seed. Soya bean is a self-pollinated crop and the maintenance of seed stocks as such will pose no special problems. Also, there will be natural spread to a large extent if the demand for soya bean expands.

A number of solvent extraction plants are already available and are spread in different areas. As such, no difficulty is envisaged in the processing of soya beans. This will, however, involve the problem of organising the processing of soya beans in selected plants by ensuring proper hygienic conditions so that cake and meal is good for utilisation.

Now that the cultivation of soya beans has taken roots in this country, we have to think of introducing certain promotional measures for encouraging its cultivation. One such measure could be the fixation of support price. We have also to encourage short-term crop production loans for soya beans production programmes by various state governments, through different financial agencies, especially co-operatives to meet the cost of seed, bacterial culture, fertilisers and plant protection chemicals, etc. Soya beans could also be included in the National Demonstration Programme in areas where multiple cropping is possible. The Food Corporation of India could also undertake the marketing and processing of soya beans.

Scientific Storage

E. B. BRAHMANAKAR

SCIENTIFIC STORAGE and preservation of foodgrains would definitely help in solving the present acute food problem by minimising the heavy storage losses attendant upon faulty and unscientific storage. A study of warehousing is necessary both as an important function of marketing and as a powerful instrument that could be used to relieve the farmer from distress selling.

Storage problems are being handled by various agencies. For example (1) Central Warehousing Corporation, (2) The state warehousing corporations, (3) civil supplies departments, (4) co-operatives, (5) agricultural departments, (6) Food Corporation of India, and so on. Both the state and central governments can entrust storage problems to the concerned state warehousing corporations so that duplication of work is avoided, as far as possible and hands of the state warehousing corporations are strengthened. The Central Warehousing Corporation could confine itself to securing business from the central government. Efforts are to be made to convince the concerned departments about entrusting the work to the state warehousing corporations. The Food Corporation of India has also undertaken the function of storage. With a view to avoiding duplication of work and possible waste of money involved in maintaining separate establishments for fulfilling the same functions, and also to promote the successful working of warehousing, there should be a single organisation in the field of storage and warehousing as state transport is in the field of passenger transport.

When improved farming methods and a good monsoon combine, food production goes up beyond expectations. Last year, for instance, there was a bumper wheat harvest in the country. As

such, time is not far off when the deficit states such as Maharashtra, will be almost self-sufficient. The surplus states may have to find markets very soon for their foodgrains. Four states— Punjab. Andhra Pradesh, Madhya Pradesh and Orissa – can well be described as the granaries of India on the criterion of surplus food production in a year of normal production and taking all foodgrains together. Four other states – Assam, Haryana, Rajasthan and Tamil Nadu can be regarded as self-sufficient. The rest of the states are deficit in food. These assumptions are based on the pattern of distribution of foodgrains by the government during the last few years. According to an official statement the steps now being taken by the central and state governments are intended to make all states self-sufficient but since the crop pattern in each state is determined by many factors, it is not expected that every state will become self-sufficient.

Servicing Requirements

A good crop, to be of economic use, demands a number of services, like processing facility, adequate storage, transport facility and so on. The first requirement of a big crop is storage. Warehousing capacity has to be increased and storage made scientific so that waste is reduced. Their effective functioning is necessary in the national interest There has to be greater co-ordination in the construction and use of warehouses by the state governments and by the Food Corporation of India so that no available storage capacity — whether in the public or private sector, remains unutilised. There should be no unnecessary construction under wrong auspices. The policy of constructing big silos near the ports must be reconsidered unless they are also situated near big consuming centres.

Shortages of godown accommodation must be identified on a regional basis. Any delay in arranging for suitable storage can deprive us of the benefits of a good crop.

Cold storage facilities which are indispensable for highly perishable commodities are badly wanting in our country. It is the art of keeping perishable goods for a longer time in refrigerated space which is artificially cooled. Cold storage facilities are exceedingly important as an aid to evening out the flow of perishable commodities to the market. By means of these facilities temporary gluts are relieved, thus avoiding disastrous dumping, and temporary shortage in receipts is rendered less acute. Cold storage has widened markets, developed agricultural communities, lowered marketing costs, raised prices to producers, lowered prices to consumers, benefitted health and made accessible to the consumer at all seasons a vast variety of fruits and vegetables Cold storage facilities play an important role in the modern way of life. Highly perishable commodities can be kept in storage to hold them in good condition on their journey to markets.

Price Variations

It is common knowledge that owing to scarcity of cold storage facilities in our country potato which is normally cheap in summer becomes dear in winter when it is needed for seed purposes. It is only due to scarcity and lack of cold storage facilities. In India practically no cold storage facilities are available in transporting perishable commodities. This was a lacuna in the development of cold storage facilities in the country. A good deal remains to be done in this field and it is necessary to preserve a greater variety of commodities in cold stores.

Available reports indicate that between 1955 and 1966 the total cold storage capacity in the country increased from 77,000 tons to nearly 9,00,000 tons. The number of cold stores increased from 359 in 1958 to 706 in 1966. The country had now 950 cold stores with a capacity of 1.2 million tons. The usefulness of cold stores had been proved in preserving certain perishable articles and allowing proper distribution throughout the year. But cold stores have to increase their usefulness by extending their services to most perishable commodities including fruits, vegetables, meat, fish, and dairy products. Cold storage facilities on commercial lines are not available in our country owing to such factors as high cost, lack of technical personnel and electricity.

The fact of insufficiency of storage capacity has been brought home by recent experiences in Punjab and Haryana, where lack of warehousing produced enormous confusion and imbalance while there was a bumper wheat crop which gave rise to a surplus of three million tons. The total storage capacity at the disposal of the Punjab and Haryana governments and the Food Corporation of India was no more than half a million tonnes. The inevitable followed; over-crowded warehouses, transport bottlenecks, distress selling and crashing prices which later spread across the entire nothern zone including Uttar Pradesh. The dangers it portends for the future needs to be noted in advance and lessons learnt if similar disaster is to be avoided. The adoption of modern farming methods and intensive cultivation will definitely enhance the total production of foodgrains and its storage needs to be planned now.

The existing storage facilities in the country are poor. It clearly shows that there is tremendous need for the expansion of the industry in the public, private and co-operative sectors. It is necessary to have a sustained research programme on improved techniques of food preservation in food technology and a co-ordinated approach among related interests for the growth and expansion of the warehousing facilities.

Problems of Plenty

An economy of plenty brings its own quota of problems and we must make haste to tackle them. For, if the cultivator finds that after all the trouble he cannot get an adequate return, then the new strategy on which such high hopes are set will collapse. Scientific farming may encounter a permanent setback. Farmers must be assured of fair price for products. The obvious lesson is that the strategy would have to be enlarged to take in not only production, which is basic to it, but also storage and transport, which now seems essential. Thus, warehousing becomes more important than ever before. The total space now available appears to be enough to store about 6.5 million tons. This is much less than what would be needed if food production continues to

escalate and we also do not stop importing food from the USA.

Actually, the problem is much more than one of mere adequacy. The extra capacity we create must answer the purpose for which it was meant. We have to build scientific warehouses with good material and equipment so that what we keep in warehouse is not destroyed by moisture or pests. According to one expert committee which inquired into the question, over 7 million tons of foodgrains is wasted every year through storage under primitive conditions.

It has been pointed out by the Minister of Defence Production, Mr L. N. Mishra, that by the introduction of scientific techniques of stores preservation, it has been possible to reduce annual losses through deterioration of defence stores from Rs 121 lakhs during the decade before 1959 to a mere Rs 2 lakhs in 1968-69. The Central Warehousing Corporation claims to have developed a scientific storage facility for jaggery, a hygroscopic commodity, with the help of special rocks, use of polythene film as dunnage and control of moisture. The warehousing corporation has successfully overcome the problems of jaggery storage at Muzaffarnagar in Uttar Pradesh. A new Air-India cargo warehouse is under construction near its training college at Santa Cruz airport, Bombay. It will have arrangements for a complete segregation of outgoing and incoming cargo, and hydraulically-operated, special rooms for live-stock, and drugs.

The Central Warehousing Corporation has set up 120 warehouses at different places in the country with a total storage capacity of 11.51 lakh tons since it was started in 1967. The progress made by the CWC is quite remarkable in spite of various bottlenecks. In addition to the CWC, there are 15 state warehousing corporations which were, at the end 1968-69, operating 591 warehouses with a total capacity of over 10 lakh tons.

Co-ordinated Effort

It is therefore necessary to think of co-ordinated efforts to have the entire warehousing system under one management and control. There are three sets of organisations and administrations running parallel to one another in this country. Warehousing on a large scale is directly managed by the Ministry of Food and Agriculture to the extent of three million tons of capacity. Recently some of the capacity has been transferred to the Food Corporation.

It is suggested that warehousing in state capitals should be left to the state warehousing corporations unless the centre is of an all-India importance, and requires specialised storage. The Central Warehousing Corporation should hand over all the centres which are not of specialised nature or of all-India importance to state warehousing corporations. Multiple agencies and duplication of storage activity needs to be avoided.

Publicity is one of the weak spots of the scheme. The scheme of warehousing needs proper publicity and propaganda. The message of warehousing needs to be conveyed to the remotest corners of the country, particularly to the producers.

Publicity needs sustained efforts, and the need for qualified staff to popularise the scheme cannot be over-emphasised. It is necessary to have proper machinery for this purpose. Talks, radio scripts and dramas should be broadcast periodically. Zilla parishads and panchayat samitis should be requested to instruct their extension staff and village level workers to include warehousing as one of their 'talking points'.

Rural Publicity

A Warehousing Newsletter was published by the Central Warehousing Corporation. Some three years back the publication of this Newsletter was stopped on account of financial stringency. It has been felt that due to lack of publicity in the villages and rural areas, the warehousing scheme has not reached the rural people and hence, deposits from the agriculturists and producers are not being received on a large scale. At present, it is observed, that warehouses are catering to the interest of traders or middlemen, which is not the aim of the scheme.

The warehousing scheme lacks publicity, and this is the main reason for its failure. The responsibility has not been fixed as yet on the shoulders of some specific officers. In Kerala, the market investigator of the state warehousing corporation, has been doing this work. It may be pointed out in this context that the Block Development and National Extension Scheme officers may be made use of, for giving effective publicity. Warehousing week may be celebrated during the harvest season. During the slack season the warehousemen have plenty of time to go round the market places and address small gatherings so that they get better co-operation from regulated market committees through personal contact. Constructing warehouses in the regulated market yards is itself a kind of publicity.

Preserve for Prosperity

Central and state warehousing corporation staff should undertake the publicity work at the village level. They should deliver talks, issue pamphlets and arrange demonstrations. A documentary film entitled, "Preserve for Prosperity" should be shown in villages in regional languages.

Warehousing corporations are making some efforts not only to have local advisory committees at various centres but also to have hand-outs issued periodically in English and in regional languages explaining the warehousing scheme to the cultivators and traders. Mass communication media of the press and the radio have also been tapped for this purpose. The press is also co-operating in the matter of publishing the activities of the corporation. All the same, much needs to be done to familiarise the common folk with the benefits and possibilities of scientific storage.

Eastern Economist 25 Years Ago

FEBRUARY 9, 1945

In the twenty months since the middle of June 1943 during which period the scheme of cloth control has been in operation, the problem of the distribution of cloth has been a constant headache both to the Government and the Textile Control Board. The first six months to the end of 1943 were only the initial period of preparation for enforcing the control and accordingly, the machinery of control was devised, prices were reduced, dishoarding measures put into force and movement of cloth standardized. But as soon as this stage was passed and the time came for fully passing the benefits of the appreciable price reductions on to the consumers, began a game of hide and seek between the controllers and the traders in which successive attempts on the part of the Government and the Textile Control Board to eliminate malpractices were persistently defeated. The evil took serious form and proportions by April 1954, and the Chairman of the Textile Control Board gave a severe warning to the recalcitrant section of the trade to behave itself. In May and June punitive action was taken against many mills and dealers whose stocks were taken over or frozen. But the effects soon wore off and the black market grew so menacingly that in October last the Textile Control Board appealed again for good faith and the Government spokesmen had to issue severe threats of punitive action and alternative methods of distribution. The whole question of cloth distribution has been the subject of prolonged consultations between the Government and the Textile Control Board in the last two months and as a result a central scheme of distribution seems to have been agreed upon and worked out.

WINDOW ON THE WORLD

Harmonisation of Consumer Goods Standards

JOSSLEYN HENNESSY

I

CUSTOMERS DEMAND TO BE HEARD

LONDON :

THOUGH RAPID economic growth has brought relative affluence to most of western Europe, this has not until recently been accompanied by any increase in consumers' representation. But the revolution of rising expectations has multiplied demands that the voice of the consumer be heard.

The EEC, EFTA and other European organisations are seeking ways in which consumers' interests can be expressed in official policy and decision-taking, not only on problems of the cost of living but also non-price matters such as harmonisation of national legislation and standards affecting the consumer.

National consumer organisations have mushroomed in western Europe since the early 1950s. Most deal with comparative testing (like the Consumers' Association, publishers of *Which?*, in Britain), promotion of labelling and standards and political representation of consumers.

In 1962, a number of these bodies (mainly non-government, though some received subsidies) set up the European Office of Consumers' Unions to promote more directly consumers' interests in the EEC, while the EEC set up an official Consumers' Contact Committee in Brussels "to ensure effective representation for consumers' interests in the EEC and to promote a consumer policy". The Contact Committee includes representatives of national trade union and family organisations, consumer co-operatives and consumer organisations from the Six. Consumers are also represented—with agricultural producers, the processing industry and traders—on the agricultural consultative committee set up for cereals, pigmeat, fruit and vegetables, poultry and eggs, dairy products and wine.

In the spring of 1969, a specialised service for consumers was set up as part of the EEC Commission staff to supplement the Contact Committee. The committee and the specialised service have been working on four problems : (1) prices; (2) "adjustment of products to consumer demand"—in practice this has so far meant studies on harmonisation of national consumer legislation; (3) competition policy; and (4) consumer information. The Commission's consumer section, in conjunction with the Contact Committee, publishes a quarterly review for consumers *Europe Consummateurs.*

Under "the adjustment of products to consumer demand", the Contact Committee has, for example, complained that the Commission has adopted a regulation on colouring matter in food less restrictive than the French law, permiting the use of two additives (erythosin and brilliant green) banned in France. It has pressed, without success so far, for a regulation on compulsory labelling of food additives. Partly because of pressure from the Contact Committee, use of language of the importing as well as the exporting country is now compulsory in the EEC; grades have been adopted for jams, marmalades, pastas and eggs; the weight of chocolate bars has been harmonised; and maximum amounts of preservatives for citrus fruits have been fixed.

II

LIGHT ON E.E.C. PRICE LEVELS

Since its inception the Contact Committee has urged Brussels to set up a commisson on prices, at which price trends and comparisons could be examined by representatives of consumers, producers and traders together. So far it has only been able to obtain meetings between consumer representatives and officials of the EEC Commission.

In 1967, the Contact Committee submitted to the EEC administration a list of 24 products of major importance to consumers about which the committee considered it vital to obtain statistical information on production, consumption, trade and prices. The department concerned agreed to provide figures for seven items : liquid milk, detergents, nylon stockings, photographic films, electric bulbs, refrigerators and washing machines. In addition, since 1967 the Statistical Office of the European Communities has carried out in April and October of each year a survey of retail prices of 200 consumer goods. Both sets of figures have shown that despite the abolition of tariffs within the EEC there are still large variations in prices. Ever since the elimination of tariffs in July, 1968, price differences have narrowed only slightly. It still pays housewives in one country to go shopping in another—the Belgians, for example, go to the Netherlands to buy clothing and certain foods.

The survey for April, 1968 (published 1969), showed that prices are cheaper in France for certain food items and black-and-white photographic films; in West Germany for electrical goods, radio sets, cars and petrol; in Italy for washing machines and refrigerators; in the Netherlands for textiles, household goods, and petrol; in Belgium for photographic material; and in Luxemburg for house rents. Prices are relatively high in France for textiles, electrical goods, radio and television sets and petrol; in West Germany for food, household goods and pharmaceutical and toilet

PRICE DIFFERENTIALS IN E.E.C. COUNTRIES, APRIL 1969

	West Germany	France	Italy	Netherlands	Belgium	Luxemburg
Food	110	102	118	102	105	100
Textiles	104	129	112	100	117	117
Household goods	117	115	118	100	108	112
Electrical goods	100	140	115	112	119	115
Radio & television sets	100	151	133	133	141	131
Cleaning materials	122	116	115	100	115	108
Stationery	100	113	107	111	112	110
Photographic goods	110	109	110	111	100	112
Cars	100	118	113	123	111	105
Petrol	100	129	129	100	113	107

Source : EEC.

goods; in the Netherlands for cars and photographic material, and in Italy for food. Between 1967-68 the gap narrowed as prices of meat rose in Luxemburg, where they had been lowest, and fell in Italy, where they had been highest. The same tendency was seen in clothing and textiles, prices of which fell in France and rose in the Netherlands. However in April, 1968, many items were still more than 20 per cent dearer in some countries than in others, and in a few cases the difference was 40 per cent.

Because prices for domestic electrical appliances in France were higher than elsewhere, the Contact Committee opposed the French industry's application for safeguard measures against imports from Italy in 1967-68, and the EEC Commission rejected the French demand.

There is no machinery for informal representation of consumers in EFTA, but the EFTA secretariat has studied the effects of tariff reductions on consumer prices in member-countries. Their analysis is different and more fundamental than the EEC price studies, and its methodology and conclusions are most interesting.

Results of the Study

When EFTA was half-way through tariff dismantling in 1964, member-governments, industries, trade unions and consumers began to ask what effect tariff reductions were having on prices. The study, published in 1966, said that tariff dismantling is only one of many changes resulting from tariff cuts, which also affect production, consumption, investment and income distribution. The loss of customs revenue may force the government to look for other means of raising money, so that consumption patterns may be affected. Also it is difficult to separate the effects of EFTA tariff cuts from the cuts made at the same time through GATT, as well as changes in national tariffs and relaxation of quota restriction in some EFTA member-states.

Indices constructed for the price of goods from domestic, EFTA, and third country suppliers showed that the prices of goods from EFTA sources were tending to rise less rapidly than the prices of goods produced domestically or imported from outside EFTA. This evidence understates the full effect of EFTA tariff reductions, since the price of EFTA goods must affect the price of competing goods, home-produced or imported from non-EFTA countries. The study concludes : "What results could be obtained tended to point in the same direction and there is little doubt that EFTA tariff dismantling has affected consumer prices... The studies indicate that EFTA exporters have not used the opportunity to raise the export prices of their products to EFTA importing countries substantially above what they would have been without EFTA tariff dismantling... they have allowed the direct benefit of the tariff reduction to pass to the importing country, rather than take it themselves through wider profit margins".

Safety legislation, standards and labelling measures when adopted are mainly national, so that they may become non-tariff barriers to international trade, especially when made obligatory by a national government.

Striking Example

The most striking example is the pharmaceutical industry, where national licensing and registration systems adopted ostensibly to protect consumers have had the effect (sometimes intentional) of protecting domestic industries and reducing imports, so that prices to consumers are higher than they would otherwise be. In October, 1969, the EEC Commission called on members to create a genuine common market in parmaceutical products by 1974 and to introduce phased measures immediately. The Commission said that members are almost completely sealed off from each other by national laws on pharmaceuticals and that "it is difficult to distinguish where economic interest ends and concern for people's health begins".

Although a directive for harmonisation of licence and registration systems has been in force for five years, all six governments have disregarded it. West Germany is urging mutual recognition of national marketing licences for pharmaceutical products, but has failed to persuade other members. Partly because of these non-tariff barriers, some large pharmaceutical firms have set up separate manufacturing units in the different countries, with consequent loss of many economies of scale. There are many other examples of unco-ordinated national regulations restricting free movement of consumer goods to the detriment of consumers' interests. Volkswagen says that fifteen years ago one basic VW model could be exported anywhere in Europe, but the growth of unco-ordinated national safety regulations now compels the production of ten variant models. An electrical firm calculates that the expense of adapting a washing machine to different European regulations boosts the price 15 per cent. Another example is the division of colour television transmission, and hence of receiving set construction, between the SECAM system (France and eastern Europe) and PAL (most other west European countries), although this is an industrial and not a "consumer" standard.

III

INTERNATIONAL HARMONISATION OF STANDARDS

The British Standards Institution was set up at the beginning of the century to standardise building and engineering but spread later to other products. Similar organisations started in other countries about the same time, and international collaboration began in 1906 for electrotechnical goods, through the International Electrotechnical Commission (IEC), and since 1926 for all other goods through the International Standardisation Organisation (ISO).

After the EEC and EFTA were formed, their national standards organisations established co-ordinating committees to prevent the two blocs from developing different standards.

In western Europe the two main standards co-ordinating committees are the CEN (Comite Europeen de Coordination des Normes Electriques) and CENEL (Comite European de Coordination des Normes Electriques) both dating from 1960. CEN comprises the EEC and EFTA countries plus Greece, Ireland and Spain; CENEL the EEC and EFTA only. CEN was, however, found to be too large to produce quick results and in 1967 its members asked the 'Big Three'– the UK, France and West Germany—to lead the way. As a result these three countries established a body known as CENTRI to deal with harmonisation of standards outside the electrical goods field.

The EEC treaty prohibits "measures with an effect equivalent to quantitative restrictions", but Article 36 allows exemption on grounds of public morality, order, safety and protection of human life or health. This exemption covers all consumer protection measures. To eliminate any undesirable effects of this exemption on trade, Article 100 provides for harmonisation of national laws on health and safety.

Progress under Article 100 has been limited except in foodstuffs legislation. Regulations on colouring and additives are already in force, and on packaging materials, preservatives, and other additives (including anti-oxidants, emulsifiers, thickening agents) have been or are being drafted. The EEC authorities published in 1965 a programme for the elimination of all differences in national legislation by January 1, 1970, but most national differences persist.

In 1968, the EFTA Council of Ministers approved the following guidelines

for EFTA co-operation in technical regulations : (*a*) International recommendations should be accepted by members as the basis for compulsory technical requirements with only genuinely justifiable deviations; (*b*) when trade problems exist where no internationally agreed recommendations are available, action should be taken by the appropriate international bodies (ISO and IEC); (*c*) members should ensure that there is no discriminatory treatment in national arrangements for technical testing and approval; (*d*) to secure mutual recognition of testing certificates, each member should co-operate with other member and third countries; (*e*) new technical barriers hindering intra-EFTA trade should be notified to the Council and considered by the Committee of Trade Exports for further action.

The problem of international co-ordination of consumer legislation and standards will intensify as consumer organisations press for further legislation, and labelling and standards are extending. Technical progress will produce complications because new products and processes require new or revised regulations and standards. The EEC and EFTA should be able to work faster on these problems since the countries involved are more similar than those in the worldwide ISO and IFC, but progress in practice is slow and, it is not, in fact, certain that the EEC and EFTA are the best groups to speed up this work, which ideally should be worldwide

Strengthening the Secretariats

The main requirements for a longer-term solution are therefore the strengthening of the central secretariats of the two world standards bodies. Failing this, the best hope probably lies in agreement among the large industrial exporting countries—the US, Japan, the UK and West Germany. Britain's adoption of decimal coinage and the metric system, and of the European system of colouring of electrical connecting wires, is an important step towards an effective system of international standards.

Sources and Acknowledgements : The foregoing summarises, by special arrangement, a 28-page report in the latest issue of *Economic Trends*, published quarterly (for subscribers only) by the Economist Intelligence Unit, 27 St. James's Place, London, S.W. 1, but the EIU is responsible neither for the emphasis of my summary nor for my interspersed comments based on a variety of sources.

IFC : Another Good Year

THE INTERNATIONAL Finance Corporation, of the World Bank Group, made 24 development investments in 16 countries during the 12 months ended December 31, 1969. The IFC commitments helped mobilize approximately $ 368 million for private business enterprises to assist the economic growth of developing member-countries.

The Corporation's commitments to the projects amounted to $ 88 2 million. This compares with IFC commitments of approximately $ 47.9 million in 17 projects during the previous 12-month period.

IFC's commitments in calendar 1969 were in Argentina, Brazil, Colombia, Ecuador, El Salvador, Honduras, India, Iran, Korea, Malaysia, Pakistan, the Philippines, Thailand, Tunisia, Turkey and Yugoslavia.

IFC made its first commitment for economic development in Yugoslavia during the year, with a $2 million investment in the $12 million International Investment Corporation for Yugoslavia (IICY)— widening IFC's sphere of operations to 40 countries. IICY, to have operating headquarters in a west European financial centre, is a pioneering type of investment company through which private businesses will invest in joint industrial, agricultural and tourism and other service ventures in Yugoslavia. IICY's sponsorship was exceptionally broad, including 54 European, Japanese, United States and Yugoslavian banks. The company was organized to conduct operations made possible by legislation enacted following economic reforms in Yugoslavia in 1965.

Another innovation among enterprises with which IFC was associated during the year was a $ 39 million company in Tunisia specialized to promote the development of the country's tourism potential. European, Middle Eastern and United States companies joined IFC and private Tunisian investors in sponsoring the new type of development institution, Compagnie Financiere (Cofitour), with headquarters in Tunis. IFC's commitment to the venture was $9.9 million.

Fifteen of the 24 investments in 1969 were for more than $1 million each. Seven were in Asia and the Middle East, four in Latin America, three in Europe and one in Africa. In addition to the company to promote investments over a wide range of enterprises in Yugoslavia, IFC commitments in 1969 were in the fields of cement, ceramic tiles, development finance companies, fertilizers, printing and publishing, pulp and paper, steel, telecommunications, textiles and tourism.

More than 50 foreign businesses, financial institutions and official agencies other than IFC provided $105 million in equity and loans to these 15 projects, to which IFC supplied approximately $85 million. The equivalent of $88 million was supplied by some 45 sponsors and individual investors within the countries being assisted. An additional $28 million came from cash generation and suppliers' credits.

The nine commitments of less than $1 million each totalled approximately $2.8 million They had total project costs amounting to $62 million, including $50 million in loans by the World Bank to development finance companies assisted by IFC with equity capital.

Smaller Investments

One of the smaller investments was a $37,500 commitment to establish a pilot company in Honduras to prepare the ground work for a pulp and paper company to cost an estimated $77 million if successfully completed. Four of the investments were in development finance companies in Colombia, Ecuador and Turkey, two were supplemental investments in a Colombian textile firm, one was a commitment to a new tourist and convention hotel in El Salvador, and one helped finance the second phase of a Malaysian steel company IFC helped to establish in 1967.

IFC continued during the year to revolve its funds for re-use by the sale of portions of its commitments to other investors. Total sales and participations for the year came to almost $35 million, revolving back to IFC an amount equal to approximately 40 per cent of commitments in 1969. These sales involved 32 IFC projects, in 20 countries. In addition, there were three sales transactions in the Colombian securities market and one sale of equity rights in Greece. During the year 50 financial institutions, other organizations and private investors participated in IFC's new commitments or made purchases from its portfolio of previous investments.

The World Bank agreed in 1969 to lend an additional $100 million to IFC, bringing to $200 million the amount of funds the Bank has made available to the Corporation for use in its lending operations. The addition of the second $100 million will enable IFC to make

more and bigger commitments than would otherwise have been possible.

Also during 1969, IFC :

—Made its largest commitment in its thirteen-year history, a $22.1 million investment to help finance a $60-million expansion of Thailand's construction materials industry. The project involves financing five of the six companies in the Siam Cement group to assist in carrying out four industrial expansion programmes.

—Invested in the printing and publishing field for the first time, with a $7-million commitment to help Editorial Codex SociedadAnonima, Argentina, a leading Latin American publisher of educational and cultural books and magazines, to implement a $25.7 million project to expand and consolidate its operations.

—Made its first investment in a telephone company to help finance an expansion programme of Philippine Long Distance Telephone Company.

—Increased total commitments to expansion of fertilizer production in member-countries to $54 million, with a $16 million commitment to Zuari Agro Chemicals Company, in India. IFC has now assisted eight fertilizer projects, in Brazil, Greece, India, Pakistan, Peru, Senegal and Tunisia.

The Republic of China and Swaziland joined IFC in 1969, raising total membership in the Corporation at the end of the year to 92 and increasing paid-in share capital to $106,575,000.

Towards a United Europe

E. B. BROOK

VIENNA:

WESTERN Europe has grown so accustomed to being a magnet to American business investment that it is only slowly beginning to realise that the American investment wave is receding and being replaced by larger scale buying from east Europe and by a far greater scale of industrial investment activity by west Europe itself.

European companies are no longer in danger of being devoured by US business. Europe is losing its fascination to the Americans as an investment field; there is a distinct slackening off compared with the gigantic investment splurge of the late '50s and early '60s. Quite a number of American firms even feel they should no longer be in Europe and may pull out.

Reasons for the American investors increasing disenchantment with Europe are the disappointingly small profit margins, the high cost of labour (a potent element in reducing profits) and the Europeans' tactic in the late '60s of using American consulting companies to help save them from US competitors in Europe. There is also the growth in Europe, within and without the Common Market, of nationalist policies especially in strategic economic sectors.

Not least among the factors pushing the more venturesome of American enterprise out of Europe is the growth of huge European mergers within national boundaries — in Britain, in France and Holland where the Rhone-Poulencs and the Dutch AKZOs are consolidating. These combines quickly result in a growth of highly developed technology and high intensity capital which hits the American European extension where it is most sensitive to damage. Had the Common Market adopted legislation suggested to it covering simplified corporation laws, tax harmonization and uniform patent laws, the European mergers would have come about even more quickly and the Americans, still more adaptable to new conditions than the Europeans, would have reduced their activities five years ago instead of now.

The Europeans, on the other hand, are coming together to a degree unknown before and beginning to work out a new type of European politics. De Gaulle's phrase of "Europe from the Atlantic to the Urals" was too unsubtle to be generally acceptable but, in a less aggressive and more workmanlike way, that idea is precisely what is being worked out — in fact, to beyond the Urals if the new Soviet oil and gas fields in the Tyumen area of the Ob river basin in Siberia become, as predicted, the Soviet Union's main source of fuel.

The Soviet-West German and Soviet-Italian deals for supplies of natural gas in exchange for large-diameter pipes, the Franco-British Concorde plane, the British-Dutch-German project for producing enriched uranium and the French rejection of the US Westinghouse Electric's offer to buy out a key French electrical machinery firm are all indications of an all-European effort to have European industry dominant in its own area.

The west Europeans, also, are far ahead of the Americans in tapping the difficult but potentially valuable markets of east Europe. American restrictions are severely limiting US opportunities in this field while the west European states appear almost to vie with one another to sell to them on long-term credit. The Italians are racing ahead with business in the Soviet Union and Yugoslavia to such an extent that the West Germans, through Volkswagen and Mercedes, are striving to see what business they can underwrite with the Soviet Union. German heavy machinery builders, British and French industrial chemistry firms and Japanese electronic companies are making a long and valuable start in east Europe before the Americans get going there at all.

The eastward trade winds are, in fact, a compelling force explaining much of the West German anxiety for political solutions with the Soviet Union, Poland, Czechoslovakia and even with their own unbeloved East Germany. The east European states, on their part, realize that while the huge Soviet market for low quality goods was a blessing to them during the early period of their industrialization in the 1950s and most of the 1960s they must now buy from west Europe in its latest technological fields if they are to be able to manufacture machinery and equipment that will have the slightest chance of selling in western markets or, possibly, elsewhere now that African as well as Asian markets are becoming more discriminating.

No Illusions

The old "politicos" of east Europe have all but disappeared and the new communist technocrats who have taken their places have no illusions what must be done to achieve a sellers' market and are fully determined to ensure at least a fair field for their own market forces. It appears probable that, as west Europe becomes more co-operative with the east, individual enterprises in east Europe will come to take the place of central ministries in negotiating directly with the big west European corporations

East and west Europe are both conscious of the fact that the Common Market is moving towards a revival and that, unless there is progress towards one another now, the Market may, almost despite itself,

polarize trade to the disadvantage of all but its own members. In the seventies it is probable that west Europe will increase its relatively meagre 11 billion dollar investment in the United States closer to the 64 billion dollars the US has invested in west Europe. The eastern part of Europe will be very anxious to make sure that not all European investment capital is directed across the Atlantic and, for this reason, is in a hurry to get new and bigger trade deals settled this year before west European industry becomes too self-absorbed and busy finding better and quicker returns in trans-Atlantic enterprise Since Moscow has already been obliged to make it clear to the Poles and the Czechoslovaks that it cannot supply sufficient investment capital for industrial growth in the seventies and the US money market is not available, east Europe knows its only source is to be found among its fellow Europeans.

Raw Material Exports of Developing Countries

V. POLEZHAYEV

THE ECONOMIES of the developing countries largely depend on trade in raw materials. Industrial raw materials and raw foodstuffs account for over 80 per cent of their exports.

The unfavourable situation in their raw material exports has been largely responsible for the failures in achieving the aims promulgated by the United Nations in the first decade of development (the 1960s). Today, when the UN is working on the programme for the next decade, it is advisable to return to problems of raw material exports in the developing countries as they will be no less urgent in the 1970s.

Trade in raw materials is the least dynamic sphere of international exchange. Between the mid-1950s and mid-1960s, its average growth rates were about twice as slow as those of trade in manufactured goods. Raw materials exports from the developing countries grow much slower than the exports of these materials from the industrial countries. The respective average annual growth rates of exports from 1955 to 1965 — 3.8 and 5.6 per cent — are an indication of the unequal opportunities of free market economy countries with differing levels of economic development. During this period, the increase in the export of industrial raw materials from the developing countries averaged 1.6 per cent annually and from the industrial countries 4.9 per cent, while exports of raw foodstuffs increased by 3.1 and 7.0 per cent, respectively. These figures show that the developing countries lag behind even in the fields in which they ought to excel. The main causes of this lag, which means great losses to these countries' growing economies, are rooted in foreign trade policy and practice of the countries with free economies.

The industrial free market economies are pursuing a protectionist trade policy in relation to raw materials and taking economic measures aimed ultimately at ensuring self-sufficiency. This means that the developed countries produce individual types of raw materials in quantities often exceeding their domestic needs, thus ousting the developing states from their traditional markets. Besides, great progress is being made in producing synthetic materials competing with natural raw materials. To this, one should add the limited geography of exporting raw materials from the developing countries to the industrially advanced countries. The latter circumstance is the result of the influence foreign capital in the colonial period exerted on establishing international ties.

Hopes Belied

It was thought that decolonisation should have allowed free flow of capital and trade. Time has shown, however, that no substantial changes have taken place in the movement of capital and the geographical direction of trade of the developing countries.

The industrialised free market economies, particularly the USA, Britain, the Federal Republic of Germany, Japan, Italy, Canada and the Scandinavian countries, make wide use of quantitative restrictions on their raw material imports from the developing countries: quotas, licensing, seasonal and other restrictions. Over a hundred types of raw materials, which are of great importance for their exporters, are subject to such restrictions. Among them are cotton, coffee, sugar, fruit, vegetables, tea, vegetable oils, groundnuts, soya, rice, cattle, poultry, meat, fish, hides, sulphur, graphite, tungsten, sea products and a whole number of other goods.

Despite their own promises and the recommendations of international economic organisations, the western countries are proving slow to lift their quantitative restrictions. The developing countries justly insist that the industrialised countries should remove artificial obstacles to trade, lift or reduce quantitative restrictions, import duties and internal taxes on their goods, relax protectionist measures and decrease excessive export subsidies.

The Soviet Union advocates that just principles of international trade relations be strictly observed by all states. Soviet foreign trade plans have provided for a steady expansion of trade with the developing countries. As compared with 1963, this trade in 1967 increased by more than 35 per cent, the total growth of Soviet foreign trade over the same period reaching 25.6 per cent. In recent years, the Soviet Union has made much bigger purchases of cocoa-beans, tea, coffee, rice, oranges, raw hides, wool and some other raw materials.

Combined Effort

For this trade to develop successfully, the developing countries must play their part and see that the terms of trade with the Soviet Union are no less favourable than those granted to the western industrialised countries.

It is in the interests of the developing countries of Asia, Africa and Latin America to combine their efforts to expand trade with the socialist countries with their efforts to eliminate tariff and non-tariff barriers erected by the highly developed free market economy countries and to search for new ways of expanding their raw material exports.

This would be facilitated, in particular, by wider mutual trade between the developing countries. Although in recent years their mutual trade in many types of raw materials had developed more rapidly than before, it nevertheless is growing more slowly than world trade in raw materials.

Setting up of regional makets in the form of free trade zones, customs union and other forms of co-operation are opening up favourable prospects for the developing countries' mutual trade, including raw materials exchange. Yet they have still to overcome serious difficulties arising from the inconvertibility of the currencies of some member-countries, the existence of closed monetary zones, the similarity of export nomenclatures in several countries, the influence of foreign capital connected with the monpolies of western industrialised countries, and so on.

The developing countries, trade in raw materials could be fostered by mak-

ing their goods more competitive, finding new ways of their utilisation, lowering production costs, the establishment of new bodies to encourage exports, widening the practice of granting preferences as regards export goods, transportation within a country, a better trading apparatus, setting up state organisations for raw materials exports, reducing or abolishing export tariffs, and other similar government measures.

Curbing the Spiral

It is also important to curb price fluctuations on the western markets and their harmful consequences for the economies of the developing countries. These fluctuations are chiefly caused by the cyclic development of production as a whole and its individual branches, and changing market conditions due to objective and subjective reasons, including selling out "strategic stocks" and also due to natural calamities and social phenomena. Unstable prices entail sharp fluctuations in export earnings and ultimately hamper economic programmes. Price fluctuations in raw materials are high. Recently, they have at times reached 20 to 28 per cent in a year. As a result, annual fluctuations of export income have been 15 to 17 per cent.

International inter-government commodity agreements based on a system of export quotas combined, as a rule, with other market-regulating measures, have so far been the most reliable means of counteracting excessive price fluctuations. The system of export quotas, i.e. a system devised to regulate the demand, is a form of more or less organised regulation of production on a worldwide scale. It is therefore supported by the Soviet Union and other socialist countries. The importer countries would help this system if they assumed definite obligations in this respect and thereby curb protectionism in individual industrial countries and their groupings. In this connection mention should be made of the International Sugar Agreement of 1968, which sets forth the concrete obligations for importer countries as regards sugar purchases on the "free market".

Sometimes the system of export quotas is supplemented by a system of buffer stocks created by the exporter countries. This combination makes it possible to minimise fluctuations when the regulation of export quotas prove insufficient. There is, however, a fundamental difference between the system of buffer stocks and that of export quotas supplemented with quantitative obligations on the part of importer countries.

Buffer Stocks

The system of buffer stocks introduces no organising element, only passively following spontaneous market fluctuations. It affects the trade policy of the signatory countries neither directly nor indirectly.

For this reason alone the buffer stocks system is unsatisfactory from the standpoint of the socialist countries, whose economy is based on social ownership and the planning principle. It is primarily bilateral long-term agreements that the socialist states consider as acceptable addition to the system of export quotas, for these agreements accord with the principle of the balanced development of production and foreign trade.

Widely known today is the proposal to settle questions of currency receipt regulation by means of compensatory financing. According to this proposal, the developing exporter countries would be compensated for the

"losses" when the price of some definite raw material falls below the agreed minimum level. Compensation would be paid from the funds which the developed countries are recommended to set up at the expense of levies imposed on raw material imports from the developing countries, or from other sources.

On closer consideration, however, this method does not guarantee stable currency receipts for the direct producers.

The Soviet Union is ready to continue co-operating with other countries in searching for effective means of stabilising commodity markets. It favours, in particular, stabilising commodity agreements on goods which are important for the developing countries, namely cocoa-beans, oilseeds, vegetable oils, cotton, citrus fruits, bananas, lead and zinc, oil, copper, iron ore, manganese ore and hard fibres. The USSR is a signatory to some international commodity agreements now in force.

The developing countries must approach the question of commodity agreements realistically with due regard for long-term prospects, even when favourable short-term conditions shape by chance on individual markets.

Another important aspect of the problem of raw material exports is the general downward tendency of prices of raw materials exported by the developing countries. This tendency is accompanied by a fall in the "purchasing power" of these countries in view of a diametrically opposite tendency in the movement of prices for manufactured goods imported by them from industrialised western countries.

Increasing Losses

In the 1960's, the losses in "purchasing power" of the developing countries' exports have amounted to some $2,500 million annually, which is nearly half of the flow of foreign state financial resources into the developing countries.

A solution to this problem, which is largely the result of the growing monopolisation of industrial production in the developed countries, goes beyond the problem of raw material exports proper. A solution is possible provided the developing countries carry out measures to diversify their national economies and to widen the range of export goods, especially of manufactured goods.

As the Algiers Charter correctly points out, the responsibility for economic development in the newly free countries mainly rests on themselves. Large-scale industrial development in these countries will enable them to do without the import of some goods and to channel additional resources into their economies. It will lead to a change in the pattern of exports in favour of manufactured goods and will thus improve the relation of export and import prices. Finally, it will make their foreign trade less dependent on fluctuations in the prices of individual raw materials, thereby ensuring more stable currency receipts.

As to preferential treatment for the developing countries, the developed countries pursue a very careful and restrained policy, and this question is still under discussion in international organisations. This urgent problem remains unsolved chiefly because of the resistance of the western industrialised countries which regard preferences as an encroachment on their own interests. The USSR pays due attention to the interests of the developing countries in expanding their exports of finished and semi-finished products, and increases its purchases of these goods. The Soviet Union has signed several agreements in which imports of these goods have been fixed and has granted preferential treatment to goods imported from developing countries.

Outlook for International Monetary System

GERARD A. DONOHUE

WASHINGTON:

FOR THE first time in years, bankers and traders, economists and speculators can look ahead at the new year and not see an international monetary crisis. The most accurate barometer of the international monetary climate — the gold market — is quiet. Just about everyone is happy about this except the speculators who had bought gold in recent years in hopes that the dollar, the basic unit of the international system, would have to be, in effect, devalued and they could make a sizable profit.

The United States still has its balance of payments problems — and will undoubtedly continue to have them for some years — but there is no longer a threat to the dollar, because the central bankers of most nations have agreed not to buy or sell gold except among themselves at the official price.

The one uncertainty of the two-tier gold system was removed recently when agreement was reached with South Africa on the disposal of newly-mined gold.

What has preserved the whole international financial system, through some very dangerous and uncertain moments, and provided the structure in which trade has grown phenomenally has been the willingness of nations to co-operate even though the risks were occasionally great. And governments have taken unpopular domestic political actions, such as realigning currency values or cutting back on the rate of growth or raising interest rates to attain or preserve international economic balance.

When the British pound was weak, the International Monetary Fund, the United States and other nations made massive loans of foreign currencies to help England preserve the value of the pound. The Federal Republic of Germany has revalued the mark and France devalued the franc to bring their currencies in line with the value of other major currencies.

The United States and England have both taken restrictive fiscal and monetary policy actions to halt inflation that has been eroding the real value of their currencies. As a result of these actions the pound is far stronger than it has been in many years; fears for the value of the dollar have evaporated; and the mark is about at their proper value.

Before World War II, few nations gave much thought or care to the economic problems of other countries. If a nation had a shortage of gold or foreign currency, well, it just stopped buying or devalued to make its exports cheaper. If it had an excess of gold and foreign currencies it almost always suffered from inflation.

It was to avoid such harsh competition among nations and increase trade that the International Monetary Fund was created in 1944. Few would disagree that because of the Fund, and the willingness of the members to work together, trade has increased at an unprecedented rate and nations in financial difficulties have been granted the time to solve them. Now the members have taken the unprecedented step of creating an international trading asset that is based solely on their trust in each other —the Special Drawing Rights (SDRs). The first of these have been issued and there has been no shortage of takers or unwillingness on the part of members to exchange hard currency for "paper gold." It is because the system has been tested now for 25 years and proved workable that people can keep their faith in the value of the dollar and other major currencies.

Trade Winds

FOURTH PLAN OUTLAY

A MEETING of the Planning Commission under the chairmanship of the Prime Minister, Mrs Indira Gandhi, recently decided on an overall outlay of Rs 24,855 crores for the fourth Plan. This means an increase of Rs 457 crores over the Rs 24,398 crores proposed in the earlier draft Plan. The Commission also fixed a higher public sector outlay—Rs 15,871 crores, which is an increase of Rs 1,481 crores compared to the draft Plan proposals. About Rs 964 crores of the increase will go to the central sector and Rs 517 crores to the states. The increased outlay for the states will be met from their own resources. While raising the financial targets, the outlay for the private sector has been scaled down to Rs 8,984 crores from the original figure of Rs 10,000 crores. The reduction has been made in certain areas like agriculture and higher provisions have been made in the public sector.

STEEL FURNACE INDUSTRY

Nearly 123 electric arc furnaces operating in this country are not able to utilise their full capacity because of a severe shortage of its basic raw material—melting scrap. The electric arc furnaces have complained that this raw material is allowed to be exported while they are not able to get this material. They add that the steel furnace industry itself contributes nearly Rs 20 crores by way of exports by providing essential components to wagon and locomotive machinery, cement making machinery, coal mining and earth moving equipment. It has been suggested that some kind of regulation of export of scrap should be brought into practice. It is also suggested that facilities such as reduction in the railway fares and railway rates for meeting the collection of scrap, should be allowed. Scrap processing yards are also proposed to be set up with the necessary equipment required.

TRADE DELEGATION TO ITALY

At the invitation of the Government of Italy, a 12-member trade delegation visited Italy from January 12 to 24, 1970. The delegation was led by Mr G. L. Bansal, Secretary-General of the Federation of Indian Chambers of Commerce and Industry. It includd Mr Yashwant Sinha, Deputy Secretary, Ministry of Foreign Trade. The resident representative of the Cotton Textiles Export Promotion Council in Frankfurt also joined the delegation for a few days in Italy. It visited various places of interest like Milan, Genova, Bologna, Florence, Verona and Rome. There was great appreciation for the progress made by this country after independence and a realisation of the fact that closer co-operation with this country is a rewarding experience and will be more so in the future. In the finished leather sector, an effort was made by the delegation to introduce in the Italian market cow hide. A large number of Italian counterparts were contacted for this purpose and some trial orders were booked. Great interest was shown by Italian buyers in finished leather for shoe linings. Considerable interest was also shown by Italian buyers in Indian handloom fabrics and other handloom products. The large number of contacts made by the delegation in Italy were also used to impress upon Italian buyers the fact that handloom fabrics, both silk and cotton, were allowed duty-free entry in Italy. Interest was shown in Indian food products also, specially curry-powder, chutneys and sauces. However, the delegation felt that in order to increase the size of the demand in Italy a sustained promotional campaign will have to be undertaken to create a taste for Indian foods. The delegation also found that there was a good deal of interest among Italian buyers for Indian cotton textiles specially, cotton yarn. The delegation felt that the Cotton Textiles Export Promotion Council should maintain its interest in the Italian market, and take advantage of the opportunities which exist. Interest was also shown in a range of minor minerals like bauxite, quartz, granite, marble, and lignite. On the import side, the Indian delegation visited a number of factories manufacturing special. machine tools, machines for the manufacture of dye cast presses, plastic injection machines, and units manufacturing chemicals and pharmaceuticals. The Italian manufacturers were keen to export specialised electromedical equipment to this country. The Indian delegation was also interested in importing special machinery for manufacture of shoes and shoe grindery, staple fibre nylon yarn etc. Useful contacts have been made in these fields and will be followed up.

INDO-BELGIAN TRADE

Their Majesties King Baudouin and Queen Fabiola of Belgium paid a state visit from January 28 to February 4, 1970. Both the countries have maintained meaningful co-operation in the economic, political and cultural fields. Indo-Belgian trade during the last few years has been as under :

(Value in Rs Lakhs -Post devaluation)

Years	Indian exports to Belgium	India's imports from Belgium
1965-66	1482	1814
1966-67	1731	2396
1967-68	2063	1649
1968-69	3140	1025

The increase in exports from this country has been due to the sale of the precious and semi-precious stones (including cut-diamonds) in Belgium, which amounted to only Rs 549 lakhs in 1965-66. It rose to Rs 755 lakhs in 1966-67 and Rs 988 lakhs in 1967-68 and touched an all-time high figure of Rs 2039 lakhs during 1968-69. Other important items of exports are jute goods, iron ore and concentrates, leather, bones, horns etc., and tobacco. These items account for another 23 per cent of our exports to Belgium. Exports of engineering goods amounted to only Rs 4 lakhs during 1968-69.

On the imports side, the main items of our imports from Belgium are machinery other than electric, electrical machinery apparatus and appliances, electrical wires, bars etc. of copper, iron and steel items and fertiliser (manufactured).

LEATHER MANUFACTURES FOR W. GERMANY

At the invitation of the State Trading Corporation a four-member delegation from West Germany arrived recently in this country on a ten-day visit to various leather and shoe producing centres in the country. Besides placing orders with the Indian manufacturers, the delegation will also advise the Indian leather and shoe manufacturers on improvements and adaptations necessary for competing successfully in the European markets.

Leather and leather products constitute about 20 per cent of this country's exports to West Germany. During 1968-69, export of leather to West Germany amounted to nearly Rs 5 crores and footwear Rs 17 lakhs. The visit of the delegation, it is hoped, will enable the leather and shoe manufacturers in India to take advantage of the highly sophisticated technology of the German industry. The members of the delegation are : Mr Jakob, President of German Leather Wholesalers' Association; Mr Herzberger, Secretary of the Chamber of Commerce, Pirmasens; Mr Mattil, Proprietor, Mattil Shoe Factory, Pirmansens and Mrs Mattil. The delegation visited the principal leather and shoe manufacturing centres like Agra and Madras.

PORT DEVELOPMENT PLAN

The National Harbour Board recently reviewed the progress of various projects of development of major ports as well as the new projects to be taken in the fourth plan and approved the outlay of Rs 280 crores decided by the Planning Commission for development of major ports. The union Shipping and Transport Minister, Mr K. Raghuramaiah, asked ship-builders and others manning the ports to modernise the ports to catch up with the technological revolution taking place all over the world, both in regard to the size of ships and methods of handling. Inaugurating the eighteenth meeting of the National Harbour Board, the minister stated that in the face of such a technological revolution, we could not just stand by and watch. The minister stated that the pattern of trade had also been changing gradually. Increasingly the ports had been called upon to handle bulk commodities such as iron ore, crude oil, foodgrains and fertilisers. The development of ports had naturally been guided to a great extent by this change in the pattern of trade. Speaking on the development of major ports, Mr Raghuramaiah said that the decision to go ahead with the construction of the outer harbour at Visakhapatnam with an export capacity of 12 million tonnes of ore per year, had now received the final approval. This would cost about Rs 37 crores and is expected to be completed by May 1974. The union minister said that it was gratifying that Japan had agreed to give the required aid for the construction of the project. Another important land-mark was the development of Madras port to increase its handling capacity to one lakh tonnes with a view to channelising the export of Bellary-Hospet ore through that port for export, he said. Referring to Paradip port, Mr Raghuramaiah said that to meet the challenge of dredging that was confronted at Paradip and other ports, the Government of India had placed orders for two extra powerful dredgers. Similarly, to meet the demand for a major port on the west coast, Marmugao port would be developed at a cost of Rs 28 crores.

BOKARO PROJECT

As part of the programme to speed up construction of the Bokaro Steel Plant, the Soviet authorities propose to advance the time-schedule for the despatch of Soviet equipments and refractories for the project as well as components and spares for the Heavy Engineering Corporation at Ranchi. This assurance is understood to have been given by the Soviet Minister of Heavy, Power and Transport Industries, Mr V. F. Zhigalin, and his team during a round of discussions held recently with Mr Swaran Singh, Minister of Defence, Steel and Heavy Engineering, Mr, K. C. Pant, Minister of State, and officials of the Ministry of Steel and Heavy Engineering. The Soviet Minister and party visited Ranchi, Bokaro and Durgapur for detailed on-the-spot discussions with the authorities of the Heavy Engineering Corporation, the Bokaro Steel Project and the Mining and Allied Machinery Corporation respectively. The Soviet Minister indicated that USSR would render all assistance for the successful completion of the Bokaro Project

and the profitable working of HEC and MAMC. The Soviet team noted that the tempo of work at Bokaro was fast picking up as a result of special efforts made by the Steel Ministry and the project authorities. Mr. Zhigalin spoke highly of the calibre of Indian design engineers and other technical personnel and stated that everything should be done to ensure bright career prospects for them, so that they might not be tempted to seek advancement abroad.

DEEP SEA FISHING

In the symposium on deep sea fishing held at Ernakulam from February 3 to 5, 1970, the most basic and preliminary issue, whether deep sea fishing effort is justified in the present context, was discussed. The blueprints for development of deep sea fishing in the country have been drawn up and India is ready for a take-off in this direction. The issue has been raised in one of the papers titled "Planning for Development of Deep Sea Fishing in India", read at the symposium, followed by other two relevant issues, whether the scale and nature of the effort envisaged is practicable and whether the same would prove sufficient in the context of the wide-ranging fishing strategy of advanced nations. The basic assumption with which this paper deals with is that the stage has been fully reached for a transition from coastal to deep sea fishing. Another paper titled "General Problems of the Fishing Industry" offers an extensive survey of Indian fisheries, the resources backing its growth, pre-requisites of increasing catches, training of the crew and various aspects of mechanisation involved in sea fishing. The average annual marine catch of the country based on five years data from 1964 to 1968 is estimated at about 8,82,000 tonnes. Most of this catch comes from the narrow belt of inshore waters extending up to the depth contour of 20 to 25 metres. It is believed that further augmentation of fishing intensity in this traditional fishing ground will now yield only marginal increase in the catch.

L.I.C. PREMIUM RATES REVISION

The union Minister of State for Finance, Mr R. K. Khadilkar stated recently that in pursuance of the assurance given by the government, the Life Insurance Corporation had decided to reduce the premium rates under certain non-profit plans of assurance. These are non-profit whole life, whole life by limited payments, endowment, joint life, guaranteed triple benefit, convertible whole life and multi-purpose plans. The reductions vary from Rs 4·25 to Rs 0.75 per Rs 1,000 assured depending upon the plan and term. Expressed as percentage of premium reduction it is as high as 7·5 per cent. For all tables under which non-profit premiums have been reduced taken together the overall reduction works out to over 5 per cent. The reductions become operative from February 1, 1970. Mr Khadilkar stated that it has not been found possible to reduce premium rates under certain non-profit plans like fixed term (marriage) endowment, educational annuity, double endowment, pure endowment and convertible term assurance.

The Morarka Committee which went into the LIC's expenses, recommended a reduction in the case of non-profit policies alone. The LIC Board is also of the same view and the government is in agreement with this view. Mr M.R. Bhide, chairman of the Life Insurance Corporation, pointed out that as a result of the premium rate reduction for without profit policies the corporation would lose about Rs 3 lakhs in the first year. The size of the policy that will be affected as a result of this decision is about six per cent. He also pointed out that the bonus paid by the corporation would not be affected. Mr Bhide added that the expenses of the LIC were going up as the cost per employee was Rs 3,300 at the time of nationalisation and it had gone up to Rs 6,300 now, showing an increase of 90 per cent.

The LIC has also decided recently to increase the limits of maximum sum assured under non-medical schemes. The limit of maximum sum assured upto which policies can be issued under non-medical (general) scheme is increased from Rs 4000 to Rs 5,000. The limit of maximum sum assured under non-medical (special) scheme in respect of certain categories of employed persons is increased from Rs 7,500 to Rs 10,000. The limit of maximum sum assured under non-medical (special) scheme applicable to commissioned officers in the armed forces who are in medical category A1 is increased from Rs 10,000 to Rs 20,000. It has also been decided to extend the non-medical (special) scheme, subject to certain conditions, to all female lives categorised as standard lives) who are in permanent service in the employ of government (central and states), municipal, district board, or local board offices or schools, hospitals, etc. run by any of these agencies, state corporations, public sector undertakings and public limited companies. Policies will be issued to these categories of female lives on non-medical basis upto Rs 5,000. The corporation has also decided to liberalise its practice with regard to charging of sex extra to many categories of female lives. Further, the maximum amounts upto which the corporation grants insurance on female lives after medical examination have also been increased.

INTEREST ON PROVIDENT FUND

The central board of trustees of the Employees Provident Fund, which met recently, recommended raising of interest on the accumulations of the subscribers provident fund to 5·7 per cent for the year 1970-71. The current years rate of interest is 5·5 per cent. The board also approved the continuance of grant of financial relief to the nominees/heirs of the deceased members out of the death relief fund to the maximum extent of Rs 750 for another two years, up to December 31, 1971. It also recommended certain deterrent measures against defaulting employers. The board reviewed the pattern of investment of provident fund accumulations and recommended specific proposals for further liberalisation of the pattern during the ensuing year 1970-71. It also considered certain recommendations of the Administrative Reforms Department, Ministry of Home Affairs on the working of the Employees Provident Fund Organisation involving policy matters and accepted them in principle. The board will hold its next meeting at Ottacamund, Tamil Nadu on April 25, 1970.

TARIFF VALUE OF SUGAR

The union government has revised the tariff value of free-sale sugar from Rs 140 to Rs 145 per quintal for the purpose of assessment of central excise duty. The revised tariff value is effective from January 24, 1970.

SELF-SUFFICIENCY IN MINERALS

The Ministry of Petroleum, Chemicals, Mines & Metals has geared its efforts to make the country self-sufficient in minerals, thus giving meaning to political independence. Describing the salient features of the ministry's policies, Dr Triguna Sen, Minister for Petroleum, Chemicals, Mines & Metals, told the Consultative Committee of Parliament attached to the Department of Mines & Metals, that until recently this country was believed to have coal and iron alone and it was only during the last few years that this country had become conscious of its reserves in non-ferrous metals. Since non-ferrous metals were being imported causing a heavy drain on foreign exchange the ministry had decided to give priority to the discovery and exploitation of non-ferrous reserves. He added that since it took over five years to establish commercial exploitation of a mine, the ministry was also anxious to reduce the period by mechanising the operations. The mining operations in small mines too, Dr Sen pointed out, had to be carried out scientifically to avoid wastage of mineral wealth. The members wanted the government to provide technical knowhow to the private sector mines to enable them to conduct their operations scientifically. Dr Triguna Sen indicated that a technical consultancy service in the Indian Bureau of Mines was being set up to provide for services, on payment of reasonable charges, to the mining industry in regard to appraisal and exploitation of mineral deposits, planning of designs of mines, selection of design of suitable mining equipment, research and preparation of economic flow sheets for beneficiation and concentration of minerals. Also, the concept of joint sector may be introduced in the field of mining.

COTTON YIELD

The per hectare yield of cotton in this country in terms of kilograms of lint, has been steadily rising over the years. The figures were 108 in 1965-66, 114 in 1966-67, 123 in 1967-68 and 1968-69. The 1968-69 yield reflects a 13·9 per cent increase over the 1965-66 yield. If a long term view over the three Plan periods from 1949-50 to 1964-65 is taken, the trend growth rate in cotton was 4·4 per cent a year and the compound rate of growth in productivity of cotton was 1·97 per cent per annum as compared to 1·61 per cent for foodgrains. In this country cotton is grown annually over an area of about 8 million hectares. However, almost 84 per cent of this area is unirrigated and only 16 per cent or about 1·28 million hectares are irrigated. The cotton crop is very sensitive to soil moisture conditions and both excess and deficiency of moisture affect the yields adversely. In the absence of irrigation facilities, it becomes difficult to maintain an optimum level of moisture in the soils in the rain-fed areas. Moreover, in scanty rainfall regions where cotton is grown, most of the lands are also of low fertility where agriculture itself is a gamble. Despite these handicaps and natural limitations, the per unit yield has been rising steadily.

RUSSIA'S NATIONAL INCOME

The national income of the Soviet Union increased by six per cent in 1969 as compared with the preceding year. According to a report of the USSR Central Statistical Board published in Moscow, during the past year of the five-year Plan period (1966-1970) the directives of the Soviet Communist Party for basic targets— the growth of industrial output, retail trade, increase in the real income of the population — were successfully fulfilled. Targets for the growth of the average wages of industrial and office workers and collective farmers were in particular fulfilled a year ahead of schedule. Industrial output increased by seven per cent.

"If we keep up the trend we can definitely get a surplus situation in food."

Company Affairs

K.C.P.

Mr V. M. Rao, Chairman, the K.C.P. Ltd, stated at the annual general meeting held recently that sales and profits of the company during the year ended June 30, 1969 were quite satisfactory inspite of difficult conditions in respect of sugar, cement and heavy engineering. The company, he added proposed to diversify in various new lines. Mr Rao stated that production of sugar reached all time peak and most of the sugar produced by the company had to be transported to north India. Moreover, sugarcane in Andhra Pradesh was of comparatively inferior quality because of cyclones which devastated the area. In respect of cement, he expressed gratitude for the government's decision to keep decontrol in abeyance. Marketing has always been a problem in this country because of the locational disadvantages. It would, therefore, be good for the company if decontrol is continued. The production in heavy engineering section improved as against the previous year due to the application of improved techniques. He, however, added that the recent price increase in steel had led to an erosion in the margin of profit. The company, therefore, will have to make intensive efforts to maintain its profitability.

Mr Rao took this opportunity to thank the managing agents who conclude their term on April 2, 1970, due to the Company Law. There would be an alternate form of management now. The company under the managing agents, he added, made very substantial expansion so that gross block of the company increased from Rs 85 lakhs in 1954 to over 1,100 lakhs. The sales increased by 800 per cent to Rs 1,365 lakhs. Similarly, the number of employees increased three-fold and their total emoluments increased by nearly nine hundred per cent. In other words, the average income of an employee went up by nearly three times. The equity shareholders contribution of around Rs 43 lakhs was increased during the period by the issue of bonus shares including the proposed new issue, to Rs 275 lakhs.

ZENITH STEEL PIPES

Zenith Steel Pipes Ltd has been a pioneer in the export of pipes since 1964. The company exports pipes to 38 countries of the world, including Australia, Denmark, Africa, New Zealand, the UK and the USA. The company's sales have steadily moved up from Rs 148·23 lakhs in 1962-63 to Rs 593·91 lakhs in 1968-69. During the ten months ended December 31, 1969, the company recorded sales amounting to Rs 425·55 lakhs. The company exported nearly 1 per cent of its products in 1963-64 and now its exports have gone up to as much as 55 per cent of its production. As against the share capital of Rs 105 lakhs the company's reserves and surplus now amount to Rs 123·80 lakhs. The company capitalised Rs 35 lakhs and issued bonus shares to the shareholders in the ratio of one share for two held and has again recommended bonus shares to the existing shareholders in the ratio of one share for three held. The company paid six per cent dividend during 1962-63 and since then steadily moved up and during 1968-69 paid ten per cent on equity shares on the increased capital. The company's financial position has been extremely sound and it is suggested that even on the increased capital the management would find no difficulty in maintaining the dividend. While speaking on the occasion of the celebration of the progress of Zenith Steel Pipes in the matter of export accomplishment the company's director, Mr S.G. Nevatia, indicated that the company proposes to expand and diversify its activities and has already applied to the government for permission to do so.

CENTURY ENKA

The directors of Century Enka Ltd state in their report for the nine-month period ended September 30, 1969, that trial production was started in October 1969 and commercial production achieved by the end of November. They expect that after the initial teething troubles, the company should be able to manufacture yarn of international standard. The company's nylon plant has been set up within a short period of 20 months. The foreign collaborators, Aku N. V. (Holland) have permitted the company to market its nylon yarn in this country under the trade name of Enkalon which is their registered trade mark. The company's application for further expansion is under consideration of the government. In view of the start-up of the plant, the company has requested the authorities to take an early decision about this, specially as it is understood that the government has already taken a policy decision to permit expansion of all the smaller units to the minimum economical size of six tons per day.

PEIRCE LESLIE

The subscription list of the public issue of 196,000 lakh equity shares of Rs 10 each at par and 15,000 (9·3 per cent) cumulative redeemable preference shares of Rs 100 each at par by Peirce Leslie India Ltd will open on February 9 and close on February 13 or earlier but not before February 11. The company intends to continue the development of its cashew processing activities and has plans to expand these activities by growing cashew on a plantation basis. It has inherited substantial export business. The proceeds of the proposed issue will be utilised for repaying the debts due by the company to Peirce Leslie and Co. Ltd, London, and to provide for working capital.

TATA CHEMICALS

Mr J. R. D. Tata, Chairman of Tata Chemicals Ltd, has envisaged good results for the current year ending June 30, 1970. He added that the company has received the approval of the government for expanding its soda ash capacity from the present level of 600 tonnes to 1,000 tonnes per day. This expansion will be completed in a couple of years and is estimated to cost about Rs 3 crores. For this no fresh capital will be necessary and the expansion plans will be completed from the company's internal resources. He pointed out that the production of soda ash, which was affected in the past two or three months, has now been normalised and the plant has started producing 600 tonnes per day. The company had recently submitted a revised Rs 55-crore fertiliser project for the government's approval. Of this, the capital expenditure on the plant and equipment will be about Rs 53 crores, while about Rs 2 crores will be needed for working capital. He indicated that though it will produce lower quantity of plant nutrients than the earlier Rs 166-crore project it can achieve the earlier envisaged level of the production if the government approves expansion in phases in later years. Mr Tata added that this is one of the best lines of development for the company. He hoped that the company will receive the government's sanction for the revised fertiliser project early. If this project goes through the company will have to raise fresh capital. He has envisaged that such an issue will not be there before a year or one and a half years.

TATA ENGINEERING

The Chairman of Tata Engineering and Locomotive Co Ltd, Mr J. R. D. Tata told shareholders at an extraordinary general meeting held in Bombay recently that the management has a "social responsibility" towards shareholders and that it will be the endeavour of the board to see that shareholders do not suffer in the shape of a reduction in the dividend because of the strike at Jamshedpur and the resultant fall in the company's profits. In 1968-69, the company produced 22,416 vehicles and sold 22,348 vehicles. In view of the loss of production for 48 days, the production for the year as a whole will decline by about 2,500 or 3,000 trucks. The production of vehicles is now at the rated capacity. It is likely that the actual production in subsequent months will be slightly higher than the rated capacity.

H. M. T.

The turnover of the Hindustan Machine Tools Ltd, for the year 1968-69 was Rs 1,535 lakhs as against Rs 1,465 lakhs during the previous year. Inspite of this increase in sales turnover of Rs 70 lakhs, the working of the company for the year under review has resulted in a net loss of Rs 34 lakhs (after providing for interest on loans amounting to Rs 147 lakhs and depreciation of Rs 184 lakhs), as against the net loss of Rs 66 lakhs during the previous year. An encouraging feature of the year has been the rise in exports. Machines valued at Rs 97 lakhs were exported as compared to Rs 29 lakhs during the corresponding period last year. The company has carried on a phased programme of diversification. It has entered into the manufacture of new types of machines which were being imported such as gear shapers, gear hobbers, size 4/5 all-electric milling machines, multi-spindle automatics, single-spindle automatics, heavy duty surface grinders, heavy duty centre lathes, turret type milling machines, copying lathes, drum turret lathes, multi-tool lathes, horizontal boring machines and broaching machines, press brakes and presses. HMT has been able to finalise the collaboration agreement with a US firm for the manufacture of heavy duty presses.

The company has planned a programme of diversification outside the field of machine tools too by taking up the manufacture of tractors, printing machinery and die casting and plastic injection moulding machines. A general agreement with Messrs. Polygraph had been concluded for the manufacture of different types of printing machines. However, since the progress achieved with the firm was not encouraging HMT has negotiated with Messrs. Societa Nebiolo, Turin, Italy, who are one of the leading manufacturers of printing presses in the world. While a proposal for the manufacture of tractors utilising the available spare capacity of HMT Unit at Pinjore and Messrs. Mining & Allied Machinery Corporation, Durgapur, is at present under consideration, HMT has also concluded a technical collaboration agreement for the manufacture of die-casting machine and plastic injection moulding machine for which there is great demand in the country. These steps, are likely to act as stabilising factors to enable HMT to meet the challenge of recession and consequential effects of a fluctuating demand for machine tools. The HMT provided technical assistance to Messrs. Ceylon Steel Corporation, Colombo, to set up a small machine tool factory to undertake the manufacture of machine tools in that country. The HMT watch unit made steady progress during the year. Against a production of 250,000 wrist watches valued at Rs 264 lakhs during the previous year, the output during the year under report was 300,000 wrist watches

valued at Rs 327 lakhs. During the fourth Plan period, HMT has plans to expand the watch factory at Bangalore, raising its production capacity from 360,000 wrist watches to 550,000 wrist watches per annum. The revised programme envisages to include the production of automatic and 'day and date' types of sophisticated wrist watches. There is also a proposal to setup a watch factory in Kashmir with an installed capacity of 300,000 wrist watches per annum.

TRAVANCORE TITANIUM

With a record production of 5,266 metric tonnes in 1969, the highest since its inception and a 9 per cent improvement over the previous year, Travancore Titanium Products, Trivandrum, has taken a significant step forward. This will go a long way in meeting the country's demand for industrial pigment, Titanium dioxide, a vital raw material, and will save foreign exchange by reducing imports. The company proposes an expansion programme which when completed will take the production up to approximately 24,000 tonnes a year. A significant feature of this expansion is that reliance is entirely on Indian expertise and resources. Without depending on foreign collaboration, Travancore Titanium turns out its product that compares in quality with the best manufactured anywhere in the world.

FIT TIGHT NUTS

The directors of Fit Tight Nuts and Bolts Ltd, have stated that the Porbandar projects of the company was delayed on account of the late grant of "no objection certificate" by the airport authorities for the erection of electrical towers and due to the problems connected with developing industrial areas. Practically all the machines were erected by September and the production started thereafter. The working of this project will be reflected in the accounts for the year ending September 30, 1970. By the completion of the first phase about 1,200 tons capacity has been established in Porbandar at the cost of Rs 1·20 crores, being Rs 20 lakhs more than the original estimate. The directors have added that the second phase of the project is under consideration and will be put through at an appropriate time.

HEAVY ELECTRICALS

Heavy Electricals (India) Ltd, Bhopal recorded a gross output during the year ended March 31, 1969 of Rs 27·24 crores as against Rs 21·49 crores during the previous year. A target of Rs 31·53 crores has been set for the finished output for the year 1969-70. The company has manufactured transformers of 125 MVA and 100 MVA units of 220 kV range for Maharashtra and Gujarat Electricity Boards. Another transformer of 250 MVA, 220 kV class for Rajasthan Atomic Power Plant was in advanced stage of production. The unit has established traction equipment required by the Indian railways and the manufacture of motors for meter-gauge diesel electric and application has also been accepted. Three new lines of products—air blast circuit breakers, outdoor kiosk type switchgears and contractor controls for rolling mills and industrial drives have been successfully established. A variety of medium and large motors for voltages up to 11 kV AC have been designed and built for industrial drives and also for power station auxiliaries. A few DC motors have been completed for the first time for industrial use. Besides manufacture of 440 V and 3·3 to 11 kV range capacitor banks for power systems, high voltage of 33 kV were manufactured for Rourkela Development work on 'Aroclor' manufacture is in progress and regular production is expected to commence during 1969-70. During the year the factory has rolled out the first water wheel alternator of 15 MW range for Bassi Power Station (Himachal Pradesh). Another unit of the same size and 2 units of 33 MW for Obra Hydel Station in Uttar Pradesh were successfully completed. Work on various hydro contracts was in progress for Gumti and UBDC Projects. The second 30 MW thermal generator for the Parli Power Station in Maharashtra was successfully completed during the year. Manufacture of the 120 MW turbo generator for Chandrapura Thermal Station is in progress. It has also produced water turbines, steam turbines and fabricaed various other heavy electrical equipment. The company has also participated in about ninety important tenders for exports totalling to a value of Rs 12·50 crores. Out of these, about forty-one tenders worth Rs 5·27 crores are yet to be decided and we are favourably placed in some of these. Seven small orders valuing Rs 2·28 lakhs have been received. This includes switchgear and motors with associated control for UAR and Iraq and micanite insulation sheets for Oerlikon, Switzerland.

PERMANENT MAGNETS

According to the preliminary figures released recently, turnover of Permanent Magnets Ltd.- in 1969 has amounted to Rs 90·60 lakhs compared to Rs 60·86 lakhs in the previous year. Of this, exports have totalled Rs 4·32 lakhs. As at the beginning of the current year the company had outstanding orders of Rs 1·28 crores compared to less than Rs 55 lakhs at the beginning of 1968.

UNICHEM LABORATORIES

The working of Unichem Laboratories Ltd during the year ended September 30, 1969, has resulted in a net profit of Rs 14·62 lakhs, after providing Rs 11·12 lakhs for depreciation and Rs 1·11 lakhs for taxation. The directors have proposed to transfer Rs 16·95 lakhs to general reserve and have proposed to maintain the equity dividend at 10 per cent on increased capital, which will absorb Rs 5·40 lakhs and paid from the general reserve. During the year, the production at Bombay and Ghaziabad continued to be satisfactory. The protein foods division at Ghaziabad commenced trial production at the end of 1969. This project has been delayed owing to non-availability of import licence for machinery. Export sales have crossed the target of Rs 10 lakhs.

ANDHRA SUGARS

The working of the Andhra Sugars Ltd, during the year ended September 30, 1969, has resulted in a gross profit of Rs 115·30 lakhs. The company's sales were around Rs 6·92 crores. The directors have proposed to maintain the dividend at 12 per cent for the year. The directors have already proposed to issue bonus shares in the ratio of four shares for every five shares held. Out of the gross profit, the directors have provided Rs 8 lakhs for taxation, Rs 51·14 lakhs for depreciation and Rs 30 lakhs for development rebate reserve. The directors state in their annual report that all the units of the company generally worked satisfactorily during the year. Its sugar factory produced 2,86,160 bags against 203,120 bags. Its sales of superphosphate were higher at 18,881 tonnes against 18,419 tonnes. The company's caustic soda-chlorine-hydrochloric acid unit is currently working at full capacity. The company has started to derive good results from the diversification of its activities. The improved working of chemical units in the current year is expected to affect completely the anticipated fall in profits of the sugar unit on account of low prices for free sugar.

IMKEMEX

Imkemex India Ltd, during the year ended September 30, 1969, recorded exports of the order of Rs 193 lakhs, nearly 25 per cent more than during the previous year. The company expects to export around Rs 220 crores this year. Imkemex export range now comprises over 60 products including polyester fabrics, rubber chemicals, paints and various industrial chemicals. The company exports to 48 countries and is able to sell abroad sophisticated chemical products through continuous exploitation of new outlets in overseas markets, in the face of global competition.

Export of polyester fabrics has achieved an increase of 500 per cent as compared with the first year of its export, October 1965-Septemeber 1966. The company exports Terene blended fabrics, on behalf of Chemicals and Fibres of India Ltd to foreign markets selected after a worldwide survey. In addition to established markets in Asia and Africa, advanced technology and modern marketing techniques have enabled rapid penetration into highly sophisticated markets such as West Germany, the UK, Sweden and Denmark. Technically trained salesmen of the company were able to establish Indian dyestuffs in the international markets in competition with leading west European manufacturers. During the year under review, the company exported dyestuffs valued at Rs 43 lakhs to thirteen countries in West Asia, eastern Europe, east and west Africa and south Asia. A noteworthy feature of Imkemex is the assistance it renders to many large and small chemical and dyestuff manufacturers, including the public sector, to place their products overseas. The exports of such 'pick-a-back' products last year totalled Rs 30 lakhs. There are as many as twentyeight chemical and dyestuff manufacturers who depend on the expertise and overseas market knowledge developed by Imkemex. Export of paints has also substantially improved and last year the company exceeded Rs 14 lakhs and its target this year is Rs 20 lakhs. A notable recent achievement has been the procurement of an order from Japan, in spite of its own highly sophisticated industry manufacturing rubber chemicals. With this encouragement the company hoped to improve upon its last year's performance of Rs 11 lakhs.

COMPANY REGISTRATION

A total number of 126 companies was registered under the Companies Act, 1956 in the different states and union territories during the month of November, 1969. Two of the new floatations were companies limited by guarantee while the remaining one hundred and twenty-four were limited by shares. The later comprised 5 public limited companies and 119 private limited companies having aggregate authorised capital of Rs 1·63 crores and Rs 10·26 crores respectively. The companies limited by guarantee registered during the month were: the Trust Association of the Advent Christian Conference of India Pvt. Ltd, Madras, and Agricultural Services Organisation, Bombay. The two government companies registered were Haryana Dairy Development Corporation, Chandigarh with authorised capital of Rs 1 crore and Kerala State Financial Enterprises Ltd., Kerala with authorised capital of Rs 25 lakhs. Of the 124 companies limited by shares 59 would be engaged in "processing and manufacture"; 44 in commerce (trade and finance) and the remaining 21 in miscellaneous activities. Six of these companies were large-sized ones. The state of Maharashtra occupies the prime position with 32 new floatations, followed by West Bengal with 21 companies, Delhi with 16 companies, Gujarat with 12 companies, Punjab and Tamil Nadu with seven companies each, Andhra Pradesh, Kerala, Mysore and Uttar Pradesh with 4 companies each, Chandigarh with 3 companies, Assam, Bihar and Madhya Pradesh with 2 companies each and Jammu & Kashmir, Rajasthan, Haryana and Goa with one company each.

CAPITAL AND BONUS ISSUES

Consent has been accorded to 14 companies to raise capital amounting to over Rs 7.08 crores. Thirteen of them are to issue bonus shares, totalling over Rs 3.28 crores.

The Maneklal Harilal Spinning & Manufacturing Company Ltd, Ahmedabad, is to-

capitalise Rs 9 lakhs out of its special reserves and issue fully paid equity shares of Rs 200 each as bonus shares in the ratio of one for three held.

Crompton Greaves Limited, Bombay, is to capitalise Rs 180 lakhs out of its general reserves and issue fully paid equity shares of Rs 100 each as bonus shares in the ratio of three for five held.

Jagatjit Industries Ltd, New Delhi, is to capitalise Rs 13,18,030 out of its general reserves and issue fully paid equity shares of Rs 10 each as bonus shares in the ratio of two for five held.

Bombay Chemicals Private Ltd, Bombay, is to capitalise Rs 5 lakhs out of its general reserves and issue fully paid equity shares of Rs 100 each as bonus shares in the ratio of one for every equity share held.

Richardson Hindustan Ltd., Bombay, is to capitalise Rs 20 lakhs out of its general reserves and issue fully paid equity shares of Rs 10 each as bonus shares in the ratio of two for five held.

The Calcutta Chemical Company Ltd, Calcutta, is to capitalise Rs 15 lakhs out of its general reserves and issue fully paid equity shares of Rs 10 each as bonus shares in the ratio of one for every equity share held.

Borax Morarji Limited, Bombay, is to capitalise Rs 10 lakhs out of its general reserves and issue fully paid equity shares of Rs 50 each as bonus shares in the ratio of one for three held.

Sri Ram Vilas Service Ltd, Madras, is to capitalise Rs 4 lakhs out of its general reserves and issue fully paid equity shares of Rs 10 each as bonus shares in the ratio of two for five held.

Indian Smelting & Refining Company Ltd, Bombay, is accorded consent to capitalise Rs 36,80,400 out of its general reserves and issue fully paid equity shares of Rs 10 each as bonus shares in the ratio of three for five held.

Wood Craft Products Ltd, Calcutta, is to capitalise Rs 6,72,000 out of its general reserves and issue fully paid equity shares of Rs 10 each as bonus shares in the ratio of two for five held.

Badra Coffee Estate Ltd, Bangalore, is to capitalise Rs 1,27,500 out of its general reserves and issue 63,750 fully paid equity shares of Rs 2 each as bonus shares in the ratio of three for ten held.

International Investments (Private) Ltd, Bangalore, is to capitalise Rs 17,29,600 out of its general reserves and issue fully paid equity shares of Rs 100 each as bonus shares in the ratio of three for five held.

Jeewan Limited, Bombay, is to capitalise Rs 10 lakhs out of its general reserves and issue fully paid equity shares of Rs 100 each as bonus shares in the ratio of one for every equity shares held.

Indian Organic Chemicals Ltd, Bombay, has informed the government of its proposal to issue capital of Rs 380 lakhs under clause 5 of the Capital Issues (Exemption) Order, 1969, divided into Rs 280 lakhs in equity and Rs 100 lakhs in 9.3 per cent cumulative redeemable preference shares of Rs 100 each, to be issued for cash at par except equity shares of the value of Rs 19,27,500 which will be allotted to the foreign collaborators against supply of plant and machinery. The proceeds are to be utilized for establishing a plant in Madras for the production of 6,100 metric tonnes of polyester staple fibre per annum.

COMPANY MEETING

THE VAZIR SULTAN TOBACCO COMPANY LIMITED

REGISTERED OFFICE : AZAMABAD, HYDERABAD, ANDHRA PRADESH

Speech by the Chairman, Mr. A. M. Lal, at the Thirty-ninth Annual General Meeting of the Company on 16th January, 1970.

Ladies and Gentlemen,

It gives me great pleasure to welcome you to this the Thirtyninth Annual General Meeting of our Company.

I would like to place on record our deep sense of sorrow at the death of Mr N.B. Chenoy who retired from the Board of Directors last year, after having been connected with it since the inception of the Company in 1930.

Mr. C.A. Bone retired from the Board on 31st May, 1969 and I take this opportunity of expressing my deep appreciation and that of my colleagues on the Board, of his wise guidance and help during the years he was associated with the Company.

The Directors' Report and the Audited Accounts for the year have been in your hands for sometime now, and with your approval, we will take them as read. I now request the Secretary to read the Report of the Auditors.

1969 has been a very troubled year in our home State of Andhra Pradesh; political agitation for the implementation of the guarantees for the Telengana Region developed into a full-scale movement for a separate Telengana State. The agitation took a violent form over a protracted period, resulting in frequent disruption to normal life. Inevitably, industry and commerce suffered heavy losses and your Company also lost production because of curfews, hartals and power failures. Nature added to the distress of the State by the cyclone havoc which inundated whole Districts of Coastal Andhra. I am glad to say that the over-heated political atmosphere has cooled down and we can hopefully look forward to a period of peace and economic recovery.

In my speech last year, I gave an account of our modernisation plans to achieve the twin objectives of higher speeds and efficiencies and further improvements in quality. I am glad to say that our initial expectations have been realised and the Factory has acquired a "new look" in keeping with modern trends in Cigarette Manufacture. There is always scope for further improvements and we are working to a five-year plan.

It is my impression that the origin, composition and development of the Company are not generally known, and I would like to say a few words on this subject in the hope that it will be of interest both to Shareholders and the Public.

CHARMINAR was first manufactured in the early 1920s, in a small way by the family firm of Vazir Sultan & Sons. The popularity and demand for this cigarette quickly outstripped the manufacturing and financial resources of the family. Accordingly, in 1930, a Public Limited Company was set up under the name of THE VAZIR SULTAN TOBACCO COMPANY LIMITED registered in Hyderabad. From the very beginning, the Sultan family, the then Nizam's Government and a large number of equity shareholders in and outside Hyderabad became partners in the enterprise with shareholders from abroad who provided the necessary resources in machinery, technical staff and manufacturing know-how to set up a modern plant. The Management had the foresight to lease a large tract of land to set up the new Factory and it was possible, in subsequent years, to extend and enlarge the plant with no problem of space.

Under the new management, the distribution of CHARMINAR was spread from its home in the old Hyderabad State to all parts of the country, and it is today a truly National brand, smoked by all sections of society from the Himalayas to Cape Comorin and from the Naga Hills to the deserts of Rajasthan. Production had to keep pace with demand and we can now claim to be the largest single Cigarette Manufacturing Unit in South-East Asia.

While this is a very fine record, the point I wish to stress is that from the very beginning, the Government and the Public have been partners in the business and this is reflected in the membership of your Board which includes representatives of the Andhra Pradesh Government and the minority shareholders. They have given us invaluable assistance and advice in furthering the interests of your Company.

The composition and traditions of your Company have also influenced its management philosophy which is to identify itself with the main stream of community and business life in the country. This philosophy finds expression in many ways ; we have pioneered development work in backward rural areas, distributing and establishing demand for fertilizers and insecticides, providing credit, supporting Educational and Technical Institutions, medical centres, family planning and many other services to the community.

While I have spoken of Productivity before, I would like to touch upon one aspect which is unique and that is the worker's participation in productivity. Whereas many manufacturing units work on individual incentive schemes and determine Bonus on profits made, we hold the view that profitablity under normal conditions is under the control of management, as employees do not participate in decision making. They are, however, responsible for productivity. This thinking led, some years ago, to the creation of Comprehensive Bonus Plan, which has subsequently been modified and brought up-to-date.

This Scheme incorporates a Productivity Payment Index for different levels of production. Workmen get advances each month against the Production Index, and the final adjustment is made at the time of paying out Annual Bonus. This year, the Bonus amounted to over five months' basic wages. I think you will agree that rewards directly linked with Productivity are eminently sensible, and the added benefit is that this Bonus covers not only machine operators, but also all non-management employees in the Plant and Office. Apart from the monetary aspect, the Scheme gives the employees a greater sense of dignity and involvement in the Company's production plans.

Another aspect of our business, which I would like to mention, is the contribution of your Company in the field of import substitution and development of local suppliers. It has been our policy to be self-sufficient and, over the years, we have helped start a number of small scale workshops in Hyderabad and outside, to supply the Factory with spare parts, components for balancing equipment, and some of our printing and packaging requirements. The technical know-how and other assistance provided has helped these small manufacturers to branch out into other lines. I am happy to report that the quality of materials and workmanship has been very good and this is testimony to the skills which exist in our country, which need to be encouraged.

Turning to current business performance, you will see that the Report reflects a very satisfactory trading year in that the Sales have risen to Rs. 32·78 crores and the after-tax Profit to Rs. 82 lakhs. The efficient employment of the shareholders' money can be seen from the figures presented in the Annual Report.

I think it is only right that I should mention in this context that trading conditions may not always be so favourable. Apart from rising costs of raw materials and overheads, the price: volume relationship is the critical factor, which can be affected by further levies of excise duties and the consumers' resistance to higher prices. What is required is price stability for reasonable periods of time, to allow the market to adjust itself. Given such stability, there is every hope of your Company continuing to progress.

From the Accounts before you, it will have been noted that in order to ensure that sufficient funds are available for the replacement of Fixed Assets and Raw Materials, it was considered advisable to transfer the sum of Rs 8,56,000 to Fixed Asset & Stock Replacement Reserve.

The financial results for the year have been good, and your Directors have, therefore, recommended a final dividend of Rs. 1·25 per Ordinary Share, bringing the total dividend for the year to Rs. 2·25 per Ordinary Share, which can be considered very satisfactory.

In conclusion, I would like to express my thanks and that of the Board to all those who have continued to support us—the shareholders the employees, the management and last but not least, our esteemed customers, whom we are privileged to serve.

Note :—This does not purport to be a record of the proceedings of the Annual General Meeting

BOOKS BRIEFLY

Investing for Development

Accelerating Investment in Developing Economies: Edited by A.N. Agarwala & S. P. Singh; Oxford University Press, (1969); Pp 630; Price Rs 35.

International Economics : Sidney J. Wells ; George Allen and Unwin Ltd, Pp 330; Price 48s.

Export Marketing Operations— A Case Study Approach : Dr. L.G. Winter and S.S. Mehta; Indian Institute of Foreign Trade, New Delhi (1969); Pp 410; Price Rs 16.

The Dimensions of India's Industrial Economy : Dr. C.C. Pattanshetti; Somaiya Publications Pvt. Ltd, Bombay; Pp 183; Price Rs 15.

Introduction to Vocational Economics : B. N. Pal; Vora & Co., Publishers Pvt. Ltd, Bombay; Pp 301; Price Rs 15.

Current Economic Problems (With Special Reference to India) : Bepin Behari; Vikas Publications, Delhi, (1969); Pp 388; Price Rs 35.

Reviewed by Prof. S.S.M. DESAI

Having published *The Economics of Underdevelopment* in 1958, the authors have edited this second volume *Accelerating Investment in Developing Economies*, which is devoted to the investment problems and policies. The present volume contains twenty-three articles by eminent economists relating to acceleration of investment in newly developing countries. The articles are classified into six sections. The first section is entitled 'Investment and Economic Growth' and it contains five articles by such eminent authors as Albert O. Hirschman, Paul Streeten, P. F. Kahan, Howard S. Ellis and A. K. Cairncross. The first article deals with controversies regarding balanced versus unbalanced growth and place of capital in economic progress. Hirschman, the famous advocate of the theory of unbalanced growth, however, concludes by saying : "......the real task of social scientists is to help the leaders of the newly developing countries to scrutinize their own experience and, instead of rejecting it outright, to search in it for clues to the strategy best suited to their own environment". This is being least dogmatic about one's theory and should be acceptable to all. Paul Streeten on the other hand is more specific. He opines that if the plan to progress is studded with obstacles and if the removal of obstacles pushes the advance forward by less than the remaining obstacles retard it, balanced growth is advisable; if on the other hand, obstacles, though serious, are few or of unequal strength and if overcoming one releases forces that carry advance further, unbalanced growth is more promising. Prof. Ellis analyses the 'big push' philosophy of economic development and concludes that the economic development of the most advanced countries, at least, scarcely seems to be the result of crash programmes of investment. Discussing the place of capital in economic progress, Prof. Cairncross opines that there is greater danger that the importance of capital in relation to economic progress will be exaggerated than that it will be under-rated.

The second section contains six articles by A. E. Kahn, Hollis B. Chenery, Walter Galenson, Harvey Leibenstein, A. K. Sen, Maurice Dobb and K. N. Raj on investment criteria. The first two articles deal with well-known criterion of social marginal productivity. Walter Galenson and Harvey Leibenstein are of the opinion that successful economic development under present conditions, particularly in the face of gross economic backwardness, hinges largely on the introduction of modern technology upon as large a scale as possible. Prof. A. K. Sen has advocated a fresh approach to the problem of choice of techniques for the consumer-goods sector. Maurice Dobb has presented his views on the conflict in policy aims of maximizing employment and maximizing growth rates and discusses the time element involved. Prof. Raj examines some important aspects, particularly those relating to certain social costs and the time element pertaining to the applicability of investment criteria to choice of projects in the public sector.

The third section contains three articles which analyses the problems involved in investment decisions in developing countries. Prof. Reddaway discusses the usefulness of 'the overall marginal capital: output ratio' as a tool of economic analysis. Prof. Hirschman deals with the regional and geographical distribution of investments in the context of dual economy prevailing in some of the developing countries. H. G. Aubrey discusses the various problems which the private entrepreneurs have to face in making investment decisions, such as rationality, tradition and sentiment, etc., etc.

The fourth section contains two articles on the role of deficit financing in developing economies. Singar provides a comprehensive survey of the possibilities of using deficit financing for capital formation purposes in the public sector and Dorrance deals with the dangers of inflation. According to him it is true that *per se* rapid economic development is likely to provoke inflationary pressures and therefore, one of the problems calling for high priority in developing economies is the restraint on inflation.

The fifth section, containing three articles, deals with the problems of fiscal policy. The first article by J.H. Adler deals with fiscal policy in general; the second by A. R. Prest deals with fiscal measures and capital accumulation and the articles by H. P. Wald deals with the problem of taxation of agriculture in developing economies. Prof. Wald has shown how agricultural taxation offers a promising solution to some pressing fiscal problems of countries in early stages of economic development. No two countries however can follow exactly the same path but all can profit from the experience of others. This section is the most unsatisfactory part of the book and with a little more care and industry, the section could have been easily improved.

The sixth and the last section, containing four articles, deals with the problems of foreign finance and aid. The first article by Balogh is an old and famous article on post-war foreign investment. This article is as significant today as when it was first published in 1943. His conclusions are significant. According to the author international investments must be planned and undertaken by some international agency in conjunction with an international currency agreement. The late Ragnar Nurkse's article deals with the prospects of foreign investment in its historical perspective and makes very instructive reading. G. M. Alter deals with the controversial problem of servicing of foreign debt by developing countries. The last article on international aid for underdeveloped countries is by P.W. Rosenstein-Rodan and as the editors have rightly pointed out one could not have wished for a more exhaustive treatment of this subject than this essay with its extremely illuminating appendix.

The volume belongs to the class of books which are to be chewed and properly digested. By reading various theories, often conflicting, concerning investment, the reader comes to appreciate the importance of theoretical analysis as also limitations of theory when it is being applied to different developing countries. If the reader possesses the necessary patience and reads the book with care and attention, he will find that his efforts are adequately rewarded.

SOLID GROUNDWORK

International Economics aims at meeting the demand by teachers and students for an up-to-date text book to cover the elements of modern international economic problems. The author's object is to produce a book containing the body of knowledge with which every aspiring graduate in economics ought to be familiar and which will at the same time provide a groundwork text upon which those who wish to specialize in the subject might be able to build.

The book starts with a discussion of the fundamental problem in pure theory of international trade, namely the question of what determines the pattern of international trade. In chapters 2 and 3 the author has succinctly summarised the views of Adam Smith, Ricardo, J. S. Mill and Taussig who in 1927 published what up to that time was perhaps the most systematic analysis of the doctrine of comparative costs as developed by Ricardo and the English classical writers. Taussig's work was "almost a twentieth century *apologia* for Ricardo's labour cost doctrine." This is followed by Haberler and by the Heckscher-Ohlin approach with its emphasis on factor endowments and by Leontief, P.T. Ellsworth and S. Linder. Linder argues that "Firstly economies of scale in the home market must be such as to enable a country to manufacture a product sufficiently cheaply for it to be competitive in export markets. Secondly, general economic conditions in the export markets must be rather similar to those in the domestic market." Having gone through all these theories it becomes obvious that there is no simple explanation for the pattern of trade between any two participating countries at any given point of time. Japan is the best example in post-war years which seems to defy any particular theory of international trade, exporting capital-intensive commodities to a country such as the USA and labour-intensive commodities to countries in Asia and Africa where labour is abundant. After this the author analyses the terms of trade between countries and discusses the various methods used to measure changes in these terms. The next two chapters (5 and 6) deal with the examination of the nature of free trade and protection. Chapters (7 and 8) deal with the arguments for protection. Chapter 9 deals with the vexed question of the freedom of factor movements: if trade in commodities is quite free, is it also necessary to ensure the free movement of capital and labour? This is followed by discussion of a branch of international trade theory which is comparatively young: the relation-

ship between economic growth and international trade.

Chapters 11 to 19 are concerned with the field of international monetary economics. The author has discussed briefly but with rare clarity such problems as drawing up a country's balance of payments statement, effects of income changes in one country upon its balance of trade and on the economies of its trading partners, the question of relationship between internal and external equilibrium and the appropriate policies for securing both objectives, the development of the International Monetary Fund System, the suggestions for the reform of the IMF and the recent problems of the UK and the sterling.

In chapters 20 to 23 Prof. Wells examines some of the problems of economic integration and makes a critical assessment of some post-war attempts at such integration. In a sense this is the best part of the book. After analysing customs union theory, the author has succinctly explained and analysed the various attempts at integration such as Common Wealth Preference Area, European Coal and Steel Community, Benelux Union, European Economic Community, European Payments Union, European Free Trade Association, the Latin American Free Trade Area (LAFTA), the Central American Common Market (CACM), the Equatorial Custrus Union (of Chad, Gabon, the Central African Republic and former French Congo) and the Comecon. The author has attempted no more than thumb-nail sketches of selected problems faced by these various attempts at economic integration and the way they are being tackled. And yet he has succeeded beyond measures in drawing a fairly clear picture of the post-war situation in this field. He has also pointed out the contradiction involved in the membership of most of these countries of GATT which aims at removing various trade barriers and liberalising international trade and simultaneous attempts by most of these countries to create blocs and raise barriers against the non-members. In the last chapter the author deals with the most intractable world economic problem in recent years, namely the special problems of the developing countries. The author has clearly explained how with the passage of time the terms of trade are getting more and more adverse against the less developing countries who mainly produce primary goods. This means since they cannot pay for their imports by export earnings they are forced to borrow. Many developing countries have been borrowing almost continuously since 1948 and the burden of repayment has been such that in the case of some countries (such as India) a significant proportion of each year's capital inflow has to be earmarked for interest payment or debt repayment. UNCTAD-II could offer little consolation to these countries.

Some two-thirds of the world's population live in countries where income per head is below £ 100 a year so that together these countries account for less than 13 per cent of world income. Clearly mankind has a long way to go before it does more than touch the fringe of the problem of world poverty. The reader of this book has certainly the satisfaction that he is trying to understand the problems the solutions of which will go some way towards eradicating poverty in which so many of his fellow men are doomed to live.

This book will serve as an excellent text-book for students at the graduate level of Indian universities. The author has drawn heavily on *Readings in International Economics*, on various books by Prof. J.E. Meade and on Dr. Corden's *Survey of International Trade Theory*. Short Guide to Literature which the author has appended at the end of every chapter indicates the best available literature on various topics and will prove to be an excellent guide for those who are interested in specialising in international economics.

BREAKING NEW GROUND

An immediate increase in India's exports is indispensable to national economic survival. The past experience however has disclosed the existence of certain basic deficiencies that will have to be removed before an enduring export promotion effort can be built up and sustained. Some marked inadequacies exist in respect of (*a*) training of personnel engaged in foreign trade, (*b*) market research, (*c*) basic research on problems of international trade, and (*d*) dissemination of market information and intelligence. *Export Marketing Operations—A Case Study Approach* is intended to enable the Indian Institute of Foreign Trade to train export managers more effectively by bringing

actual Indian export problems into the class-room for students and instructors.

Export marketing management represents a relatively new field. There is no standard authoritative book on this subject in India, nor is any suitable material in the field of export marketing available. The case method has become such an integral part of modern management education that there is no escape from development of suitable Indian cases. The Institute conducted case research in various export organisations in 1968-69. The results of these first efforts have been brought together in this book.

The first chapter deals with the case method and comparison is made between the case method and the other instructional methods used. The crux of the case method is that "it derives its life and pattern from actual cases and not from any preconceived notions." Because of its inductive nature of approach, the larger the number of cases dealt with and more their variety and complexity, greater will be the scope of its development. The definition and exposition of the case method is extremely defective. A comparison is made between 'the case method' and 'the general method'. The former is supposed to involve group discussion while the latter merely lecturing which is the other name given to the general method. This is not true and even the general method can be taught on the basis of mutual discussions.

Influence of Variables

Chapter two deals with the conceptional framework for analysing export marketing. Export marketing is essentially an art wherein a number of variables have their influence. And therefore any attempt to frame a rigid conceptual framework for reference is bound to fail. And this is what has happened here. Statements such as ".... sub-plans must be developed for each major export marketing instrument. These sub-plans must be coordinated and integrated into an export marketing plan for a given market abroad.... .Horizontally and vertically coordinated sub-plans and area marketing plans must be brought together in an overall global marketing plan for the company" is something that is too vague and unworkable. In export marketing there are certain important factors such as preferences of the consumers, pricing of the product, proper selection of channels of distribution, proper dissemination of product information, availability of service facilities and planning and developing of a logistics system, which have to be carefully considered. Around these factors the authors have tried to build a formalised conceptual framework in very verbose language and with charts which though intended to be aids are actually most confounding. What ought to have been the most important part of the book has thus become the most confusing and most disappointing.

The third chapter contains the collection of a number of cases in the export marketing field. Export organisations have been selected on the basis of personal judgment of ten research workers. Attempt has been made to include firms from the public sector as also the private sector and international companies as also domestic firms. While selecting export marketing operations, special emphasis is placed on problems such as identifying export market opportunities, planning the product for export market, establishing financing policy and price strategy for foreign markets, selecting overseas channels of distribution, developing promotional plans, setting up service facilities and designing export marketing logistics system.

This chapter containing the case studies is easily the best part of the book and gives more insight into export problems than the first two chapters.

Mr Bhaskara Rao has analysed the performance of the State Trading Corporation of India in respect of banana exports. He has drawn special attention to the problems of storing and transportation experienced so far. He is of the opinion that looking at the world import statistics, it is evident that Japan, Italy and the USSR, are emerging as important markets for bananas, especially showing a distinct preference in favour of Indian Dwarf Cavendish variety. But it must always be kept in mind that the picture may change at any time and continual watch is the essence of successful export marketing. Mr K. N. Mehrota has analysed the export performance of the Handicraft and Handlooms Export Corporation, with special reference to the variety known as 'Bleeding Madras' whose exports have been declining in recent years. Mr S. S. Mehta analyses the problems faced by Mohan Manufacturing Company when they faced the problem of whether or not to accept an order for hardware items from Kenya. Mr Vikram of Bharat International is of the opinion that only big export houses with large resources and diversified markets and products could undertake export business more efficiently than small exporters. He has cited the example of Japan where 10 to 12 export houses together handle more than 90 per cent of the total export trade of the country. According to him big export houses can afford to sell at a loss in one market neutralising it by profits from other markets. The ABC Radio Corporation of New Delhi is the story of a man (Mr O.P. Agarwal) who started from a scratch in a small living room in New Delhi and subsequently built up his organisation to a stage where it enjoyed reputation for manufacturing quality products in electronics industry. These pages read like a chapter in a novel. All these case studies are extremely valuable and will give to the Indian exporters an idea of multifarious problems which they have to face in the world market. This might enable them to adjust their policies accordingly.

A basic bibliography on export trade appended at the end of the book gives extremely valuable information on export trade. The bibliography has attempted to bring together important literature of current interest from a wide variety of sources. For easy reference the material has been arranged under subject headings such as trade statistics, foreign trade, money, banking, transport and economic surveys of various countries. This fair comprehensive list comprising of 494 books and papers is easily the most valuable part of the book from the point of view of the Indian exporters.

TOO AMBITIOUS EFFORT

The author's justification for adding one more book to the plethora of books which are coming out during recent years on different aspects of Indian economy is that most of the books written on this subject are 'stereotyped and lop-sided' in their treatment and therefore, he was compelled "to provide a cogent reading material on Indian Economy, touching both its theoretical and applied aspects with somewhat greater emphasis on the theoretical aspect." The author proposes to cut down all dead wood such as study of the decline of handicrafts and historical portion of India's industrial economy etc. *The Dimensions of India's Industrial Economy* is the first of a series of five volumes the author proposes to write.

It is indeed a laudable objective and there is need for such a text book, comprehensive, analytical and growth-oriented. The author has maintained this theoretical stance while writing the first three chapters after which the treatment becomes thoroughly conventional. The chapter on the managing agency system is good; but there is nothing new in it. Treatment of the management of public undertakings is thoroughly inadequate dealing as it does with only the forms of public undertakings and their accountability. Omission of such vital aspects as price policy of public enterprises and their performance is a serious lapse, especially when plenty of material is now available on the subject. The chapter on industrial finance is 'stereotyped' and the problem of foreign capital is disposed of in less than two pages! One certainly expects a much detailed analysis of the various problems raised by foreign investment and collaboration in India. The two chapters on labour and trade unions are essentially historical in nature and the treatment is perfunctory. The last two chapters on small-scale industries in India contain nothing new but only repeat what every ordinary text book contains.

To attempt to compress in less than 200 pages all the complex problems of India's industrial economy is much too ambitious a task and there is no special merit in brevity for its own sake. That a book on India's industrial economy published as late as 1968 should exclude from its dimensions such topics as rationale and locational pattern of Indian industries, tariff policy, rationalisation and productivity on which considerable theoretical and applied material is available at the present, amounts to, to put it mildly, an unpardonable lapse. Spelling mistakes are galore and as regards the literary gems in the book, a single sample should suffice. On page 25 the author writes: "The methods of democratic planning may not go all the way with the hungry people however enchanting be the will of hopes, unless the legacy of reality is tolerably substantiated as a reward for the toil and patience called for in them."

VOCATIONAL ECONOMICS

After reading the short foreword by no less a person than Prem Kripal, educational adviser and secretary to the Government of India, who congratulates Mr Pal, for his book *Introduction to Vocational Economics* as a 'commendable effort' and for 'cutting relatively new ground in education and economics', one begins to read the book with great enthusiasm and expectations. By the time the reader comes to the end of the book (if he has the necessary patience to wade through these 300 pages), he gets an idea of an excellent model of how a book should not be written.

Our perspective planning is mostly in aggregative general terms, there being no detailed indication of year to year requirements in future of different categories of people from different vocations, say of civil, mechanical and electrical engineers and of teachers to teach them and so on. There is thus no doubt that aggregative planning will have to be supplemented by appropriate planning of these vocational details. This alone will be comprehensive and realistic planning and would remove all possible bottlenecks in future. It is the latter aspect which vocational economics is supposed to deal with and the author's plea that "vocational economics should have been given its proper place in the development process" is perfectly legitimate. The study of vocational planning should form an integral part of manpower planning, as it is an indispensable element of economic and social planning. Vocational planning should estimate supply and demand potentials at every stage of economic development and make adjustments accordingly. This would require vocational and educational guidance which at present is nobody's business.

Mr Pal makes an attempt to give an outline in this book on vocational economics, of theory of employment, of international trade, of monetary and fiscal theories, of growth theory and what not. And having briefly stated these theories in the most perfunctory and unsatisfactory manner, the author invariably ends with the statement that "they are all related to vocational economics." There are imposing titles and sub-titles often not logically connected and

small paras deal with such complex concepts and issues as the gold standard, central banking, free trade, rate of exchange, the Keynesian theory and so on generally in less than 15 to 20 lines. There is a hodgepodge of economics politics, sociology and psychology. There is summary at the end of every chapter and implications of analysis which however, are not implications at all. And at the end of the book there is summary of the whole book! The author is not at all clear in his mind as to what vocational economics is and indulges in vague generalisations from the first page to the last. The claim, therefore, that "A new subject has been uncovered, and a thought provoking and challenging discussion is initiated" is an empty claim.

AN INCISIVE ANALYSIS

Vikas Publications of Delhi whose *Economic Problems of Indian Agriculture* was reviewed favourably in these columns (dated December 5, 1969) have added a new feather to their cap by bringing out this excellent volume by Bepin Behari.

The economic crisis through which India is passing necessitates an examination of many delicate and complex problems. Our five-year plans have failed to provide gainful employment to the new entrants to the Indian labour market; industrial fluctuations and recession have not been controlled effectively so far; deficit financing has assumed menacing proportions and appears to have come to stay; devaluation has failed to reduce the level of India's imports, while India's exports do not show any long-term prospects of growth; the hope of our prices stabilising has practically vanished and above all the vast rural areas in India have remained practically stagnant even two decades after independence. These are all disturbing and challenging questions on which many useful publications have already appeared.

But the present study by Bepin Behari is different from others. This book provides in a simple way the theoretical background in the light of which Indian problems are analysed. It equips the reader with the necessary theoretical tools for analysing the various economic problems with a view to arrive at his own conclusions, eschewing as far as possible personal prejudices and predilections.

The author begins and begins rightly by analysing the price mechanism which is the heart of the modern economic system, capitalist or socialist. He has described in a lucid manner the elements of the price theory and against that background has analysed the problem of prices in India in all its aspects. He is of the opinion that the general factors for the price rise in India are increase in money supply generated by expanding public sector activities financed by deficit financing, large outlays on non-productive activities, faulty distributional channels and so on. For the proper solution of the price problem, if ever the problem is to be solved, the author proposes that the consumer's sovereignty must be re-established, agricultural sector should be given due importance, expenditure policy of the government should be production-oriented, quality of administration must be improved and the question of proper motivation for social action should be appropriately considered. This is a more comprehensive study of the Indian price problem than is to be found in most other books on the subject.

The chapter on deficit financing is an equally fine article combining the theory of deficit financing and the Indian experience in the field. He has shown how in the words of Prof. B. R. Shenoy deficit financing has proved to be "the best subsidy to communism". The article on devaluation is an equally fine piece. Having analysed devaluation of the Indian rupee, the author has shown how "The Indian devaluation decision illustrates, how an effective weapon of economic adjustment could be blunted, if wielded, at an inappropriate time and without making necessary preparations."

The chapter on Indian exports is easily the best article in the book. Running well over 60 pages, it is very detailed and comprehensive. Export sector is "the key propulsive sector" the successful operation of which depends on various domestic and international factors. Unfortunately, as in most other fields, here also India has not done well and her exports as percentage of her national income have come down from 5·3 per cent in 1948-49 to 4·1 per cent in 1967-68 and as percentage of world exports have declined from 2·35 per cent to 0·75 per cent during the same period. Offering more of the same commodities to the same people who no longer want more of them lies at the basis of this poor performance. The author has analysed in detail the problems of India's traditional exports such as cotton manufactures, jute goods, tea, leather goods and oil seeds and has shown how various developments such as falling demand in advanced countries for primary goods, appearance of synthetic substitutes, lack of price competitiveness of Indian goods, rising competition from other developing countries in Asia and Africa have all been undermining India's position in world markets. The author concludes that overcoming her difficulties is not an easy task as it involves reorganisation of her internal economy and reorientation of her foreign relations. Exports will have to be planned from the plant level upwards to the national level and export planning be made part of the general national plan. Mere slogans such as "Export or Perish' will not capture foreign markets.

Comparatively, the chapter on India's imports is rather disappointing. The various problems of India's imports have not been dealt with as comprehensively as those of India's exports. Such treatment was necessary in view of India's rising imports. Unfortunately there is hardly any reference to the impact of the investment of foreign capital and of foreign collaboration on India's imports. The problem of import substitution requires more detailed analysis in view of the possible waste involved in a policy of reckless import substitution.

Some aspects of the problem of Indian agriculture have been very well analysed. The state patronage in various forms for more than two decades has sapped the initiative of the Indian agriculturists with the consequence that agriculture in India has failed to become a viable business proposition to this day. Agriculturists must realise their obligations to the nation and begin throwing away their crutches and face realistic market forces. The author's approach to the Indian agricultural problems is quite refreshing.

Certain chapters as those on foreign aid and planning, though good in themselves, require some more information and refinements if they are to be of as high a quality as the other chapters. Also half a dozen spelling mistakes mar the beauty of the otherwise excellently produced book.

All in all it is an excellent book. The author with his facile pen has succeeded eminently, inspite of the inevitable use of much technical jargon, in putting across his ideas in a very lucid and readable manner. His clarity of expression and exposition is evidently the outcome of clear understanding of the various problems. Exceptionally good tables enhance the utility of the book. It is an indispensable book to the students of Indian economy and to the administrators at different levels who are required to take vital decisions on various economic problems

Three Annuals

Capital, Annual Survey of Economic and Public Affairs, December 1969; edited by Dr. B. B. Ghosh and published by C. L. Seal, at Sri Guranga Press Ltd, Calcutta-9, on behalf of W.H. Targrett & Co., Ltd (the lessees under the owners Capital Ltd); Registered Office, 5, Mission Row, Calcutta; Pp 160; Price Rs 7·50.

Commerce Annual Number, 1969 edited by Vadilal Dagli and published by D. B. Mahatme on behalf of Commerce (1935) Ltd, Manek Mahal, 90 Veer Nariman Road, off Churchgate, Bombay 20; Pp. 292 + XVI; Price Rs. 10.

Swarajya, Annual Number, 1970; edited by Philip Spratt and published by T. Sadasivam on behalf of M/s. Bharathan Publications Private Ltd, Madras; Pp. 240; Price Rs 5.

Reviewed by S. P. CHOPRA

As usual, the annual number of *Capital* consists of a collection of articles on different economic and political cum-social subjects contributed by central ministers and some of the foremost writers and commentators of this country. Mr Jagjivan Ram, central Minister for Food and Agriculture, has struck an optimistic note in regard to foodgrains. According to him, this country will not need concessionary food imports from 1971 onwards. Dr S. Chandrasekhar, central Minister for Health and Family Planning, has spotlighted the success attained in the family planning programme since 1964-65 and has rightly urged that such measures as "increasing the age of marriage, liberalising the statutory provisions for the termination of pregnancies, better facilities for education of children, especially girls" are important facets of the programme for planned parenthood. Mr Nirad C. Chaudhuri expresses his deep concern regarding the anarchical tendencies in our country while Mr G. M. Laud reviews the economic scene in a broad sweep and warns that in the coming years "the burden will wholly fall on the rich in the urban sector." Included in the list of contributors are Mr K. Rangachari (until recently editor *Statesman*), Mr. Sudhir Sen, Mr George Barrell (a former editor of *Capital*), Mr Bhabatosh Dutta and Mr N. Das. The total number of contributions is 27 covering a wide variety of subjects.

The annual number of *Commerce*, our contemporary from Bombay, deals with the theme of infrastructure for our economy and discusses in an exhaustive way different aspects of transport and communications, public health, education and science, irrigation and power, institutional framework and administration. The editor has put the problem of infrastructure in proper perspective in the opening article and has cogently argued for expansion in rural infrastructure which has been neglected so far in our country. His suggestion "to change the character of high school education in such a way as to generate a steady flow of skilled workers" needs to be heeded by the government because it will not only solve the problems of rural unemployment but will also give a boost to the rural economy. The annual number has also provided statistical profile, bibliography and the usual annual reviews of industries, stock markets and commodity markets.

Swaraiya's annual number every year is a mixed bag, and the present one is no exception.

It has articles not only on various facets of our economic life but in regard to political, social and religious aspects as well. In the Gandhi Centenary year, it is not surprising to find no less than four articles on Mahatma Gandhi. Rajaji has raised the issue of the Congress Party flag which resembles very much the national flag; he has urged that "there should be no deliberate or unintended confusion between the Congress flags and the National flag." Discussing the rise and fall of nations, Dr. K.M. Munshi has painted a hopeful picture for the future of our country. "I have faith in the Indian people, particularly in our youth" says Dr Munshi. On the other hand, Mr H.V.R. Iengar (former governor of the Reserve Bank of India) laments that "the image of India has gone down" in the business community abroad. There are in all 47 articles in this annual number some of which have been illustrated with interesting double colour cartoons.

Year Books

INFA 69-70, Press and Advertisers Year Book : INFA ' Publications, Jeevan Deep, Parliament Street, New Delhi-1; Pp 930; Price Rs 25 (postage extra).

The Madras Stock Exchange Official Year Book 1969-70: Compiled and published by the Madras Stock Exchange Ltd., 322/323, Linghi Chetty Street, Madras-1; Pp 1231+ LViii; Price Rs. 15 (Postage extra).

Reviewed by B. GANAPATHY SARMA

The Press and Advertisers Year Book appearing smart in a new elegant two-colour jacket is now running into its eighth edition. It brings together in one compact volume all essential data which are so often required for reference use by busy executives and professionals in Press and Advertising, who otherwise have to wade through a mass of materials to get at the right type of information. Keeping in view the expanding and pressing needs of the users, INFA, the publishers, have paid particular attention not only to cover in depth all information but also to widen progressively the scope and coverage of data.

The information is furnished in three distinct sections. The first one deals with in "General" on all aspects of the Press such as the Press Registrar's Report, the Press in India in 1968-69, Trade and Professional associations, News and Feature agencies and other significant details relating to press. The "Media Planning" section, in yellow pages, present a comprehensive analysis on an all-India and state-wise basis of the various educational institutions, students enrolled in several stages of education, assessees in different income groups, classification of population according to urban and rural break-up and other characteristics such as age, religion, language, and spread of literacy, analysis of circulation of important publications in leading towns and cities and a host of other useful economic and statistical data. The last section is devoted to "Rates and Data" where more than 100 new trade and technical publications have been listed which makes it more informative than ever before.

In brief, this handy compendium giving authentic, comprehensive and up-to-date information will certainly prove as an indispensable guide and invaluable book of reference to press and advertising professions in particular and to academic and research institutions in general.

The Madras Stock Exchange Official Year Book gives complete details and latest information about all the companies officially listed in the Madras Stock Exchange. In addition it lists all the leading companies quoted in the other seven recognised stock exchanges in the country. In fact the scope and contents of the Year Book have been enlarged year after year to meet the increasing interests of the investing public spread all over India. Further every effort has been made to furnish latest details so as to enhance the utility of this annual compilation as a reference volume throughout the year.

The Year Book attempts to give within a span of about 1300 pages facts and figures of all leading companies relating to their directorate, management, capital structure, objects, condensed balance sheets, working results for the past one decade, and other valuable data. This apart, it provides details pertaining to central and state government loans, schedule of income-tax, rates of estate duty, wealth tax, gift tax and other useful information. Full details of the companies which raised capital in the market in the past few years have also been incorporated. Considering the wealth of information it contains there is no doubt that this encyclopaedic work will be a source of ready reference and guide to investors and entrepreneurs as well as to those engaged in research work on company finances.

Books Received

The Myth of Independence : Zulfikar Ali Bhutto; Oxford University Press ; Pp 188; Price Rs 28.50.

The Contemporary World : William H. McNeill; Vora and Co Publishers Private Ltd, Pp 184; Price Rs 5.

Profits in the Modern Economy: Edited by Harold W. Stevenson and J. Russel Nelson Vora and Co Publishers Private Ltd; Pp 200; Price Rs 5.

Management Control Manual for the Textile Industry : Norbert Lloyd Enrick; Vora and Co Publishers Private Ltd; Pp 344; Price Rs 20.

Effect of Corporate Income Taxes on Methods of Financing (Commerce Pamphlet Series) : Mohammad Mohsin; Published on behalf of *Commerce* by Vora and Co. Publishers Private Ltd; Pp 32; Price Rs 1.50.

Constitutional Aspects of Road Transport Taxation (Commerce Pamphlet series) : A. Arunachalam; Published on behalf of *Commerce* by Vora and Co. Publishers Private Ltd, Pp 24; Price Rs 1·50

Motivation of Civil Servants Commerce Pamphlet Series): S.S. Patil; Plublished on behalf of *Commerce* by Vora and Co. Publishers Private Ltd; Pp 34; Price Rs 1.50.

Production and Consumption of Fertilizers (1968-69); Published by the Fertiliser Association of India ; Pp 78; Price Rs 3.

International Policy for the World Economy: J.O.N. Perkins; George Allen and Unwin; Pp 232; Price 38s.

Automotive Industries in Developing Countries (World Bank Occasional Papers): Jack Baranson; Published by IBRD and distributed by Johns Hopkins Press; Baltimore, Maryland 21218, USA; Pp 106; Price $ 3.00

Manufacture of Heavy Electrical Equipment in Developing Countries: Ayhan Cilingiroglu; Published by IBRD and Distributed by Johns Hopkins Press; Pp 122; Price $ 3.00

Productivity, Bargaining and Industrial Change: Nora Stettner; Published for the Foundation on Automation and Employment Ltd. by Pergamon Press; Pp 185; Price $ 5.50 (Hard Cover.)

Fertiliser Statistics (1968-69): Published by the Fertiliser Association of India; Pp 638; Price Rs 25.

Poverty and Social Change with a Reappraisal: Tarlok Singh; Orient Longmans; Pp 352; Price Rs 25.

Power to the People (A Chronicle of India: 1947-67) : S. K. Dey; Orient Longmans; Pp 338; Price Rs 25.

Consumer Preference Survey for Textiles in Andhra Pradesh: Published by the Market Research Division of the Textiles Committee, Ministry of Foreign Trade and Supply, 79, Dr Annie Besant Road, Worli, Bombay-18; Pp 257; Price Rs 10.

Consumer Preference Survey for Textiles in Tamil Nadu: Published by the Ministry of Foreign Trade and Supply; Pp 256; Price Rs 10.

Cotton Counts its Customers (A Study of Raw Cotton Consumption by major end uses) Published by the Ministry of Foreign Trade and Supply; Pp. 120; Price Rs 10.

Consumer Preference Survey for Textiles in Rajasthan : Published by the Ministry of Foreign Trade and Supply; Pp 133.

Consumer Survey in Ludhiana: Published by by the Ministry of Foreign Trade and Supply; Pp 161; Price Rs 10.

Size and Capital-Intensity in Indian Industry: J.C. Sandesara; University of Bombay; Pp 163; Price Rs 14.

Coal Directory of India 1969: Published by the Coal Board; 2/B, Ganesh Chandra Avenue, Calcutta-13; Pp 193+xii; Price Rs 24.

The Export Experience of Developing Countries: Barend A. de Vries; Published by IBRD and Distributed by Johns Hopkins Press; Pp 86; Price $ 1.50.

Sector and Project Planning in Transportation: Hans A. Adler; Published by IBRD and Distributed by Johns Hopkins Press; Pp 78 ; Price $ 1.50.

Education and Training for Industrial Development in India: The Problem of Linkages: B.S. Venkata Rao; Stanford International Development Education Center; Pp 97.

Role of Directors in Company Law; S. Rao; Madras Law Journal Office, Mylapore Madras-4; Pp 448; Price Rs 25.

RECORDS AND STATISTICS

Chandigarh Goes to Punjab

AFTER VERY carefully weighing the claims of both Punjab and Haryana, the Government of India announced on January 29, 1970, that the capital project area of Chandigarh should as a whole go to Punjab. Following is the text of the press communique :

1. Consequent upon the reorganisation of the composite Punjab state under the Punjab Re-organisation Act, 1966, Punjab and Haryana has each been persistently demanding inclusion of Chandigarh in its territory. Claims have also been made by Punjab, Haryana and Himachal Pradesh for the exclusive control over the Bhakra and Beas projects. Apart from these, there have been claims and counter claims for territorial adjustment from all of them.

2. In the interest of "amity and good neighbourliness" between the people inhabiting the areas of the composite Punjab, Government of India has made repeated efforts to settle these matters on the basis of agreement between the parties. The Chandigarh issue had in particular been agitating the public mind, and the government had, therefore, announced in Parliament on November 18, 1969 that in case no agreed solution was forthcoming, a decision would be taken and announced before the Budget Session of Parliament.

3. Government has considered various alternatives for settling this matter but no agreed solution has been possible. Keeping in view the desire of the people of each state that its capital should be at Chandigarh the feasibility of dividing the city has also been explored. Chandigarh is a planned city which was built to serve as the capital of a single large state. Its lay-out, architecture and beauty have evoked wide admiration and the city has acquired an international reputation. Government has therefore, come to the conclusion that it will not be in the interest of the people of Chandigarh or of either of the two states to divide the city. Accordingly after very carefully weighing the claims of the two states they have decided that *the Capital Project area of Chandigarh should as a whole go to Punjab.*

4. At the time of formation of the union territory of Chandigarh, along with the capital project area, certain adjoining areas which were previously part of the Hindi or the Punjabi region were included in the union territory. Now that the entire project area is to be transferred to Punjab, government has decided that the areas which were added to the union territory from the Punjabi region of the erstwhile state of Punjab should be transferred to Punjab and those from Hindi region to Haryana. A part of the Sukhna lake also fell in the Hindi region but on practical considerations division of the lake is not advisable. Hence the entire lake along with its embankments will be kept as part of Chandigarh.

5. Government has also decided that a part of the Fazilka tehsil of Ferozepur district in Punjab comprising the old zail of Fazilka and Fazilka town, the area within the jurisdiction of police station Khuian Sarwar and the area within the jurisdiction of the old Abohar police station excluding the zails of Chandankhera and Kandal should be transferred to Haryana. (After careful verification a list of villages and towns falling in this area will be published by the government).

In order to provide contiguity between this area and the rest of Haryana a strip of territory of an average width of about one furlong along the inter-state boundary between Punjab and Rajasthan in village Kandukhera of Muktsar tehsil will also be transferred to Haryana.

6. Haryana will have to incur large expenditure in building a new township to serve as its capital. Keeping this in view, the Government of India has decided to give a grant of Rs 10 crores and a loan of the same amount to the Government of Haryana.

7. The Government of India hopes that the state government will soon select a suitable site for its capital and start construction. However, construction of a new capital will necessarily take some years. The Government of Haryana will, therefore, continue to have the use of office and residential accommodation now allotted to them by the central government in Chandigarh for a period not exceeding five years. During this period Chandigarh will remain a union territory.

8. As regards other claims and counterclaims for readjustment of the existing interstate boundaries, the government proposes to appoint a commission with suitable terms of reference, which will be settled in consultation with the governments of Punjab, Haryana and Himachal Pradesh.

9. *Transfer of the area mentioned in para 5 and transfers decided upon on the recommendations of the commission mentioned in para 8 will be effected simultaneously.*

10. Government intends to bring forward necessary legislation to give effect to these decisions.

11. As regards the Bhakra and Beas projects, the Punjab Reorganisation Act provided for setting up a management board for Bhakra and a construction board for Beas Project. The states of Punjab, Haryana and Rajasthan and the union territory of Himachal Pradesh are represented on these boards, which function under the overall control of the central government. The present arrangements have been made keeping in view the integrated irrigation and power systems based on these projects and in the interest of the beneficiary states. However, such modifications in these arrangements as are necessary will be considered.

12. Government hopes that these decisions taken in the best interest of the progress of the two states, will be accepted by the government and the people of the two states with goodwill and understanding.

Wholesale Prices

THE WHOLESALE prices as measured by the official index (with the year ended March 1962=100) declined by 1·6 per cent to 168·4 during November, 1969 when compared to 171·1 for the preceding month. The index for November, 1969 was, higher by 1·6 per cent when compared to the corresponding month of last year. During November 1969 'food articles' receded by 3·2 per cent to 191·0, 'liquor and tobacco' by 3·7 per cent to 188·5, and 'industrial raw materials' by 2·7 per cent to 170·6 while 'fuel, power, light, and lubricants' advanced by 0·1 per cent to 155·4, 'machinery and transport equipment' by 1·6 per cent to 137·8 and 'manufactures' by 0·9 per cent to 144·3. The index 'chemicals' remained unchanged at its previous month's level of 190·1.

Food Articles

The sub-group index for 'cereals' moved down by 2·4 per cent to 195·9 due to a fall in the prices of all the cereals except wheat and barley, which showed a rise. Lower prices of all the pulses brought down the index for 'pulses', sub-group by 2·7 per cent to 234·1 The index for 'foodgrains' witnessed a fall of 2·5 per cent to 202·8. (At this level the index for 'foodgrains' was higher by 1·5 per cent when compared with that of a year ago.) Higher prices of potatoes, onions, oranges and cashewnuts pushed up the index for 'fruits & vegetables' sub-group by 2·8 per cent to 167·5. The prices of bananas, however, recorded a fall. Lower prices of milk and ghee brought down the index for 'milk and milk products' sub-group by 2·9 per cent to 200·7. Due to fall in the prices of all edible oils, except, coconut oil which depicted a rise, the index for 'edible oils' declined by 8·6 per cent to 189·9. The sub-group index for 'fish, eggs and meat' moved down by 1·9 per cent to 189·6 owing to a fall in the prices of fish and meat. The price of eggs, however, went up. Lower prices of gur khandsari and confectionery brought down the index for 'sugar and allied products' by 3·7 per cent to 168·5. A fall of 1·6 per cent to 185·5 in the sub-group for other food articles was due to lower prices of black pepper, cummin, tea, coffee and betelnuts. The prices of chillies, cloves, cardamoms and salt, however, moved up.

Liquor and Tobacco

The index for this group declined by 3·7 per cent to 188.5 due to a fall in the prices of tobacco raw. The prices of 'liquor and tobacco' manufactures stood stationary.

Fuel, Power, Light and Lubricants

The index for 'fuel, power, light and lubricants' rose slightly by 0·1 per cent to 155·4 owing to higher prices of lubricating oil. The price of castor oil, however, fell during the month under reveiw.

Industrial Raw Materials

The index for 'fibres' sub-group rose by 1·5 per cent to 145·8 on account of higher prices of jute raw and mesta, hemp raw and silk raw although prices of cotton raw and coir fibre fell. Lower prices of all oilseeds, except groundnuts and copra, brought down the index for 'oilseeds' sub-group by 6·0 per cent to 193·8. The sub-group index for 'minerals' advanced by 0·6 per cent to 141·1 due to a rise in the prices of 'other ores'. Among 'other industrial raw materials' sub-group, tanning materials and logs and timber declined while skins raw and lac rose with the result that the index for this group receded by 0·4 per cent to 166·6.

Chemicals

The index for this group remained unchanged at its previous month's level of 190·1.

Machinery and Transport Equipment

The index for 'machinery and transport equipment advanced by 1·6 per cent to 137·8 due

INDEX NUMBERS OF WHOLESALE PRICES

(By Groups and Sub-Groups of Commodities)

(Base: 1961-62=100)

Group and Sub-Group	Monthly Averages			Percentage increase (+) decrease (—) in November 1969 as compared to	
	Nov. 1969	Oct 1969	Nov 1968	Oct. 1969	Nov. 1968
Food Articles	191·0	197·3	194·0	—3·2	—1·5
Foodgrains	202·8	208·0	199·9	—2·5	+1·5
Cereals	195·9	200·8	194·4	—2·4	+0·8
Pulses	234·1	240·5	224·3	—2·7	+4·4
Fruits and vegetables	167·5	162·9	182·3	+2·8	—8·1
Milk and milk products	200·7	206·6	191·7	—2·9	—4·7
Edible oils	189·9	207·8	176·7	—8·6	+7·5
Fish, eggs and meat	189·6	193·2	200·1	—1·9	—5·2
Sugar and allied products	168·5	175·0	234·1	—3·7	—28·0
Others	185·5	188·6	140·4	—1·6	+32·1
Liquor and Tobacco	188·5	195·7	196·2	—3·7	—3·9
Fuel, Power, Light and Lubricants	155·4	155·2	148·9	+0·1	+4·4
Industrial Raw Materials	170·6	175·3	164·9	—2·7	+3·5
Fibres	145·8	143·6	158·5	+1·5	—8·0
Oilseeds	193·8	206·2	176·0	—6·0	+10·1
Minerals	141·1	140·2	135·5	+0·6	+4·1
Others	166·6	167·3	155·8	—0·4	+6·9
Chemicals	190·1	190·1	172·0	Nil	+10·5
Machinery and transport equipment	137·8	135·6	133·0	+1·6	+3·6
Electrical machinery	133·2	134·2	134·9	—0·7	—1·3
Non-electrical machinery	142·0	137·4	133·1	+3·3	+6·7
Transport equipment	134·1	133·6	131·1	+0·4	+2·3
Manufactures	144·3	143·0	136·3	+0·9	+5·9
Intermediate Products	159·2	156·6	146·5	+1·7	+8·7
Finished Products	140·8	139·7	133·8	+0·8	+5·2

to a rise in the price of 'machinery other than electrical' and 'textile stores.'

Intermediate Products

The index for 'intermediate products' exhibited a rise of 1·7 per cent to 159·2 due to higher prices of cotton yarn, zinc, brass, copper, tin, and lead. The prices of rayon yarn, coir yarn and linseed oil, however, declined.

Finished Products

Higher prices of cotton manufactures (handloom cloth) (+0·7 per cent to 134·6), jute manufactures (+4·0 per cent to 166·7) and silk and rayon manufactures (+0·4 per cent to 112·9) raised the index for 'textiles' by 1·4 per cent to 140·9. The prices of woollen manufactures and coir mats and matting remained unchanged. The index for 'metal products' stood stationary at its previous month's level of 148·9. Higher prices of bricks and tiles and pottery goods pushed up the index for 'non-metallic products' by, 0·8 per cent to 133·8. The index for 'oilcakes' advanced by 1·3 per cent to 198·7. The sub-group indices for chemical products, leather products (shoes), rubber products. paper products & miscellaneous products remained unchanged at their previous month's level of 137·0, 97·2, 156·5, 120·4 and 120·2 respectively. On the whole, the index for 'finished products' moved up by 0·8 per cent to 140·8.

INDEX NUMBERS OF WHOLESALE PRICES *(Contd.)*

(By Groups and Sub-Groups of Commodities)

(Base: 1961-62=100)

Groups and Sub-Group	Monthly Averages			Percentage increase (+) decrease (—) in November 1969 as compared to	
	Nov. 1969	Oct. 1969	Nov. 1968	Oct. 1969	Nov. 1968
Textiles	140·9	138·9	132·7	+1·4	+6·2
Cotton manufactures	134·6	133·7	129·3	+0·7	+4·1
Jute manufactures	166·7	160·3	146·8	+4·0	+13·6
Silk and rayon manufactures	112·9	112·5	112·5	+0·4	+0·4
Woollen manufactures	169·0	169·0	158·1	Nil	+6·9
Coir mats and mattings	164·9	164·9	159·1	Nil	+3·6
Metal products	148·9	148·9	147·1	Nil	+1·2
Non-Metallic products	133·8	132·8	126·2	+0·8	+6·0
Chemical products	137·0	137·0	130·1	Nil	+5·3
Leather products (Shoes)	97·2	97·2	92·8	Nil	+4·7
Rubber products	156·5	156·5	151·2	Nil	+3·5
Paper products	120·4	120·4	112·3	Nil	+7·2
Oilcakes	198·7	196·1	176·0	+1·3	+12·9
Miscellaneous products	120·2	120·2	119·8	Nil	+0·3
All Commodities	168·4	171·1	165·8	—1·6	+1·6

Source : Economic Adviser to the Government of India.

INDEX NUMBERS OF INDUSTRIAL PRODUCTION

(Base : 1960=100)

	1969 June	1969 July	1969 August
General Index			
Seasonally adjusted	172·9	173·3	168·4
Crude	169·6	174·6	169·4
Mining and quarrying	146·4	145·8	140·5
Manufacturing	163·8	169·7	164·2
Food manufacturing	130·8	135·2	129·7
Sugar (refined)	45·9	20·6	13·8
Vanaspati	121·3	144·4	142·9
Tea	154·1	182·2	173·1
Coffee curing	164·3	103·0	66·0
Cigarette manufacturing	156·9	185·8	167·6
Manufacture of textiles	109·0	116·2	110·8
Cotton textiles	109·5	117·0	N.A.
Cotton spinning	122·8	130·9	N.A.
Weaving of cotton textiles	92·6	99·5	N.A.
Woollen textiles	142·7	154·5	N.A.
Jute textiles	79·5	86·7	52·2
Paper and paper products	200·0	199·6	200·6
Manufacture of paper	197·5	196·8	197·1
Manufacture of paper board	227·6	N.A.	N.A.
Rubber products	221·6	248·7	219·4
Tyres and tubes	264·2	294·9	268·7
Chemicals and chemical products	207·4	220·6	213·1
Basic industrial chemicals (including fertilizers).	270·8	300·4	288·4
Heavy organic chemicals	258·5	255·1	271·1
Heavy inorganic chemicals	295·3	307·4	313·7
Synthetic resin and plastics	170·6	206·5	174·7
Synthetic fibres	221·4	236·9	170·8
Dyestuffs and dyes	191·9	220·4	194·9
Fertilizers	438·1	525·3	563·9
Paints, varnishes and lacquers	112·5	118·1	109·4
Fine chemicals	132·1	171·0	151·7
Petroleum refinery products	273·3	291·6	291·5
Non-metallic mineral products	162·3	169·5	177·0
Cement	166·1	160·4	166·5
Basic metal industries	200·2	209·0	199·5
Iron and steel basic industries	190·5	202·4	192·1
Non-ferrous basic metal industries	252·6	244·6	239·7
Aluminium manufacturing	409·9	397·8	389·2
Metal products	205·9	204·1	198·6
Machinery (except electrical)	357·6	360·4	351·1
Industrial machinery	133·1	126·4	151·5
Electrical machinery	324·1	324·7	305·0
Transport equipment	131·2	120·0	136·0
Motor vehicles	146·5	146·3	154·9
Motor cycles and scooters	476·0	521·4	489·7
Bicycles and tricycles	189·1	135·4	153.3
Electricity	304·3	N.A.	N.A.

Source : C.S.O.

MONEY SUPPLY WITH THE PUBLIC

(Rs crores)

Last Friday	Money Supply	Total Currency with the Public	Deposit money with the public			Total Variation in Money Supply
			Total	Net Demand Deposits of Bank	Other Deposits with Reserve Bank	
1960-61	2,868·61	2,908·05	770·56	757·10	13·46	+199·16
1961-62	3,405·82	2,201·16	844·66	827·43	17·23	+177·21
1962-63	3,309·97	2,379·47	930·50	907·98	22·53	+264·15
1963-64	3,752·12	2,605·56	1,146·56	1,114·66	31·90	+442·15
1964-65	4,080·28	2,769·05	1,311·23	1,289·52	21·70	+328·16
1965-66	4,529·39	3,034·28	1,496·10	1,478·38	16·72	+449·11
1966-67	4,949·96	3,186·80	1,753·16	1,711·75	41·41	+420·57
1967-68	5,350·07	3,376·08	1,973·99	1,917·66	56·32	+400·11
1968-69	5,779·25	3,681·97	2,097·28	2,016·41	80·88	+429·18
October 1968	5,317·38	3,358·87	1,958·51	1,904·06	54·45	+65·22
May 1969	5,921·85	3,784·92	2,136·94	2,076·00	60·94	—1·96
June 1969	6,040·26	3,786·57	2,253·69	2,205·19	48·50	+118·41
July 1969	5,951·40	3,728·29	2,223·11	2,180·02	43·09	—88·86
August 1969	5,851·79	3,641·41	2,210·38	2,158·79	51·59	—99·61
September 1969	5,785·16	3,586·01	2,199·16	2,155·92	43·23	—66·63
October 1969	5,850·92	3,616·10	2,234·82	2,173·82	61·00	+65·76

Source: Reserve Bank of India

INDIA'S FOREIGN EXCHANGE RESERVES

End of	In Rupees lakhs						In millions of US dollars					
					Transactions with I.M.F.						Transactions with I.M.F.	
	Gold[1]	Foreign exchange[2]	Total Reserves (1+2)	Variations over the previous year/month	Drawings	Repurchases	Gold[1]	Foreign exchange[2]	Total Reserves (7+8)	Variations over the previous year/month	Drawings	Repurchases
	1	2	3	4	5	6	7	8	9	10	11	12
1960-61	117,76	185,85	303,61	—59,25	..	10,71	247	391	638	—124	..	22·5
1961-62	117,76	179,55	297,31	—6,30	119,05	60,70	247	378	625	—13	250·0	127·5
1962-63	117,76	177,34	295,10	—2,21	11,90	..	247	373	620	—5	25·0	..
1963-64	117,76	188,05	305,81	+10,71	..	23,80	247	395	642	+22	..	50·0
1964-65	133,76	115,92	249,68	—46,13	47,62	46,61	281	244	525	—117	100·0	100·0
1965-66	115,89	182,09	297,98	+48,30	65,46	35,71	243	383	626	+101	137·5	75·0
1966-67	182,53	295,91	478,44	+18,046	89,29	43,09	243	395	638	+12	187·5	57·5
1967-68	182,53	356,02	538,55	+60,11	67,58	43,23	243	475	718	+80	90·0	57·5
1968-69	182,53	394,17	576,70	+38,15	..	58,50	243	526	769	+51	..	78·0
July 1968	182,53	356,75	539,28	—57	..	..	243	476	719	—1	..	..
August 1968	182,53	352,58	535,41	—3,87	..	..	243	471	714	—5	..	..
September 1968	182,53	383,14	565,67	+30,26	..	..	243	511	754	+40	..	..
October 1968	182,53	399,29	581,82	+16,15	..	..	243	533	776	+22	..	..
November 1968	182,53	367,40	549,93	—31,89	..	..	243	490	733	—43	..	..
December 1968	182,53	328,99	511,52	—38,41	..	30,03	243	439	682	—51	..	49·0
January 1969*	182,53	325,72	508,25	—3,27	..	22,87	243	435	678	—4	..	30·5
February 1969	182,53	349,06	531,59	+23,34	..	..	243	466	709	+32	..	..
March 1969	182,53	394,17	576,70	+45,11	..	5,60	243	526	769	+60	..	7·5
April 1969	182,53	446,88	629,41	+52,71	..	37,46	243	596	839	+70	..	50·0
May 1969	182,53	457,90	640,43	+11,02	..	..	243	611	854	+15	..	..
June 1969	182,53	445,90	628,43	—12,00	..	..	243	595	838	—16	..	..
July 1969	182,53	462,71	645,24	+16,81	..	..	243	617	860	+22	..	..
August 1969	182,53	468,84	651,37	+6,13	..	..	243	626	869	+9	..	..
September 1969	182,53	485,15	667,68	+16,31	..	..	243	647	890	+21	..	..
October 1969	182,53	503,05	685,58	+17,90	..	..	243	671	914	+24	..	..

(1) Gold has been valued at Rs. 53,58 per 10 grams up to May 1966 and at Rs. 84·39 per 10 grams thereafter.
(2) Includes foreign assets of the Reserve Bank and government balances held abroad.
(3) Movement in reserves ; increase (+) /decrease (—).
*Provisional.

Source : Reserve Bank of India

CONSUMER PRICE INDEX NUMBERS FOR WORKING CLASS

Centre	1960-61*	1961-62	1962-63	1963-64	1964-65	1965-66	1966-67	1967-68	1968-69	1968 Oct.	1969 May	1969 June	1969 July	1969 Aug.	1969 Sept.	1969 Oct.
						(1949=100)										
All-India	124	127	131	137	157	169	191	213	212	219	210	216	218	218	218	216
						(1960=100)										
All-India†									174†	180	173	178	179	179	179	178
Ahmedabad	102	103	105	110	124	130	148	168	165	174	166	169	168	169	173	171
Alwaye	102	105	106	112	130	145	158	183	198	209	200	210	210	205	194	192
Asansol	97	100	105	115	126	140	145	168	176	179	174	177	177	179	179	180
Bangalore	101	106	109	114	124	144	159	172	180	186	182	184	186	186	185	184
Bhavanagar	101	103	104	107	123	132	152	173	176	185	174	175	174	180	179	178
Bombay	100	104	106	108	119	130	147	162	167	166	173	178	177	176	176	176
Calcutta	97	102	108	114	124	131	148	163	170	176	166	171	172	173	175	180
Delhi	101	104	108	114	128	136	152	172	178	185	179	182	187	187	187	186
Digboi	103	104	108	113	126	138	160	198	185	189	177	179	180	182	181	179
Gwalior	103	108	109	115	131	139	160	191	179	188	174	183	190	186	186	184
Howrah	98	101	107	113	126	137	154	178	181	183	173	177	173	176	178	180
Hyderabad	102	104	108	115	128	140	158	167	173	183	183	189	189	186	186	186
Jamshedpur	98	102	105	109	122	136	158	183	171	176	165	168	171	173	174	174
Monghyr	103	104	105	111	132	151	187	215	185	189	175	184	188	189	200	193
Mundakayam	101	104	107	111	127	138	152	173	186	199	185	194	199	198	193	188
Nagpur	96	97	98	106	131	138	148	164	165	172	169	174	176	178	176	177
Saharanpur	101	103	106	112	134	141	163	188	176	180	177	181	184	183	180	180
Sholapur	99	99	109	106	123	128	150	165	167	170	170	173	177	175	176	176

*Relates to the period January to March 1961 except for all-India (1949 =100).

†Relates to interim series for working class discontinued from August 1968. The figures from August 1968 are, however, estimated on the basis that 100 of the series with base 1960=100 equals to 121 ·54 of the interim series.

£Average of eight months from August 1968.

Source : Labour Bureau.

CONSUMER PRICE INDEX NUMBERS FOR URBAN NON-MANUAL EMPLOYEES

(Base: 1960=100)

Centre	1961-62	1962-63	1963-64	1964-65	1965-66	1966-67	1967-68	1968-69	1968 Sept.	1969 June	1969 July	1969 Aug.	1969 Sept.
All-India	104	108	113	124	132	146	159	161	165	166	168	169	169
Bombay	103	107	114	125	132	142	153	156	159	164	164	163	165
Delhi-New Delhi	105	111	116	125	131	142	154	162	165	166	168	170	170
Calcutta	102	107	112	118	126	139	152	156	160	160	161	163	164
Madras	106	111	116	125	133	147	154	154	155	159	161	160	159
Hyderabad Secunderabad	104	107	111	122	133	147	155	159	163	169	169	168	167
Bangalore	106	111	115	124	133	145	156	160	164	164	165	166	166
Lucknow	102	105	110	125	132	146	159	156	160	160	163	163	165
Ahmedabad	103	105	112	125	131	146	160	162	166	168	168	170	171
Jaipur	105	108	115	126	133	150	162	168	174	172	178	180	180
Patna	102	106	111	124	139	160	179	174	176	178	182	183	184
Srinagar	111	120	128	134	143	160	160	167	169	173	175	173	174
Trivandrum	105	110	115	122	131	146	165	168	169	171	173	174	174
Cuttack-Bhubaneshwar	107	113	122	135	142	154	164	167	169	167	170	172	171
Bhopal	109	111	115	128	133	144	166	166	173	168	175	177	176
Chandigarh	105	108	114	124	129	143	155	164	166	167	171	172	173
Shillong	103	107	114	121	123	134	155	163	166	164	167	170	166

Source : Central Statistical Organisation

Regd. No. ... Registered with the Registrar of Newspapers for India under No. R. N. [illegible]

Printed and Published by R. P. [illegible], on behalf of the Eastern Economist Ltd., United Commercial Bank Building, Parliament Street, New Delhi, at the New India Press, Connaught Circus, New Delhi.
Editor : V. Balasubramanian
Registered at the G.P.O., London, as a newspaper

EASTERN ECONOMIST 7

RUPEES 1.50. FEBRUARY 13, 1970 VOL. 54

H S L : Turning the Corner
Monetary Policy Needs Integrated Approach
Doubling Our Dollar Exports
Skeleton in Roy Jenkins' Cupboard

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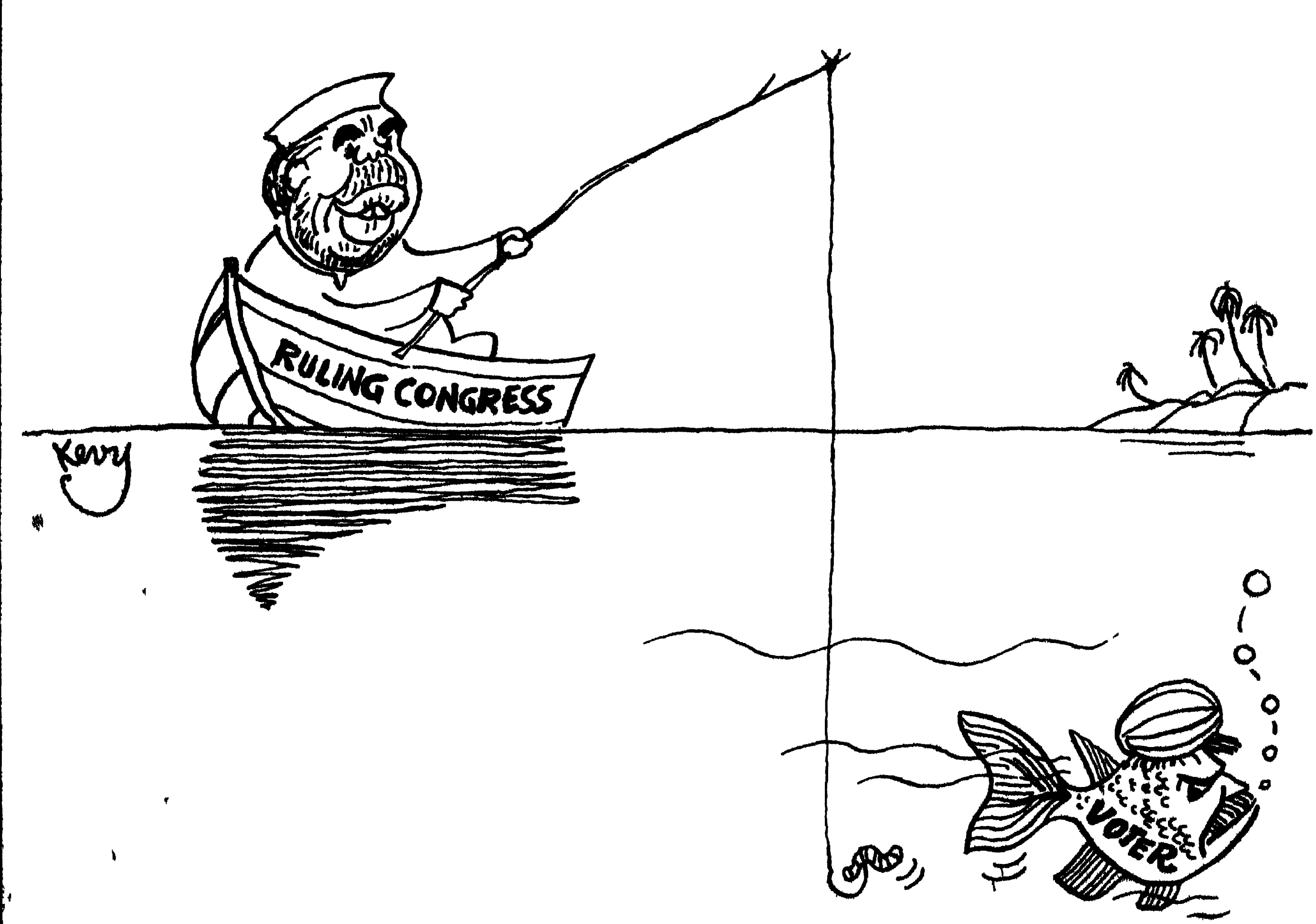


"The fourth Plan outlay for fisheries will be three times that of the third Plan,

EASTERN ECONOMIST

FEBRUARY 13, 1970

ANNUAL SUBSCRIPTION
INLAND : Rs 85.00
FOREIGN : £7-0-0 or $17-00
Airmail & Advertisement Rates on Enquiry.

REGISTERED OFFICE
UCO Bank Building, P. Box 34,
Parliament Street, New Delhi-1.

Planning With(out) Tears ?

AT LAST a note of finality has been struck in regard to the size of the fourth five-year Plan. The union cabinet last week approved the financial outlay, increasing it by Rs 457 crores over the level indicated in the draft circulated by the Planning Commission last year. In its latest shape (and as approved by the union cabinet) the outlay on the Plan for both the public and private sectors has been fixed at Rs 24,855 crores. It is not known why the planners as well as the government fought shy of raising it to the figure of Rs 25,000 crores. Could this marginal difference make any great difference in relation to the volume of finance involved ? May be, odd-looking figures smack of delicate sophistication and numerical expertise!

The increase in outlay has been accompanied by readjustments in the shares of the private and public sectors. Whereas the public sector share has been increased by about Rs 1,580 crores to Rs 15,879 crores, that of the private sector has been lowered from Rs 10,000 crores to Rs 8,976 crores. This is an indication of the present mood of the government which seems to be determined to lay overwhelming emphasis on the public sector which unfortunately has exhibited extreme inefficiency in the deployment of resources in the past two decades. It is highly likely that the arithmetical exercise in regard to the part of the private sector in the fourth five-year Plan would turn out to be an ill-informed guess. If the private sector is allowed to play its rightful role in the economy without any undue burdens either through fiscal pressures or monetary policies, it might put up a much better performance.

Despite marginal modifications in the outlay of the Plan, the broad pattern for raising resources, though not revealed so far, cannot be drastically different from what was indicated in the draft of the Plan. The draft anticipated that the public sector undertakings would throw up a surplus of the order of Rs 2,000 crores during the Plan period. There cannot be much of a change in this figure in the revised Plan. It is a well-known fact that these undertakings have already accumulated huge deficits, which are currently proving a heavy burden on the economy. Unless the working of these undertakings is improved—and at present there does not seem to be any indication that the government is seriously applying its mind in this direction—it may be difficult for them to fulfil the role assigned to them. The size of the Plan might have to be curtailed if these undertakings are not run on business principles.

The borrowing programme of the government during the fourth Plan period was expected to raise resources equivalent to a little less than Rs 4,000 crores according to the draft of the Plan. In its new version, the Plan will need perhaps a little more than Rs 4,000 crores through this source. The bulk of these funds will have to come from the savings of the household sector especially in the rural areas where new pockets of surplus purchasing power have emerged in the wake of the green revolution. The banks in particular will have to play a vigorous part in this effort. The share of urban areas may not be very large because of the drop in family savings due to rising prices in the past few years.

In each plan period the government has attempted to raise resources through additional taxation; the fourth Plan is no exception in this regard. In a growth-oriented economy, there is no difficulty in absorbing mild dosages of taxation. If the economy continues to expand in the manner envisaged in the Plan document, small increments in taxes might not cause any deleterious effect on the economy. Here, the centre might succeed in its efforts but the states are likely to fail because of relative political instability. Recently it has been observed that in some of the states the ministers are not able to attend to day-to-day administrative problems because of the political manoeuvring which goes on all the time.

It is feared that the flow of foreign assistance in the fourth Plan period might not be according to expectations. The recent herculean efforts in regard to pushing up exports have not created a situation wherein imports could be balanced by exports in the Plan period. An encouraging indication, however, has been given by the delegations of businessmen and bankers which visited our country in the current financial year and which expressed great confidence in our economy. It is now for the government to implement some of the suggestions made by them so that the flow of foreign capital, both on public and

private accounts, could at least be maintained, if not accelerated, at the preceding years' level.

The Planning Commission as well as the government have repeatedly been warned by critics about harmful effects of large deficit financing. Consequently, the government seems to be determined not to seek any significant assistance from the Nasik press for its development efforts. That is why the order of deficit financing has been kept small and it would be resorted to only in years when the supply of consumer goods and foodgrains in particular is adequate.

The Plan as approved by the union cabinet has shown increased consideration for rural areas. It is a right decision because the rural areas will be called upon to play a prominent role in the implementation of the Plan. The increase in the outlay of rural electrification by Rs 45 crores to Rs 150 crores will promote minor irrigation through the popularisation of pumpsets. Similarly, the decision to increase the outlay for the Agricultural Finance Corporation from Rs 145 crores to Rs 200 crores is welcome. Among the industries, increased funds have been allotted for steel including the expansion of Bhilai and Bokaro. Assam has received special consideration; a petrochemical complex in the state has been included in the Plan. Also, provision has been made for increasing oil refining capacity in that state.

The sector-wise allocation of outlay has not been made known. It is reported that the allocation for energy has not been enhanced despite the persistent demands of the ministries concerned. In regard to electricity in particular, as we pointed out in our Annual Number, the fourth Plan target of 22 million KW is an under-estimate. The experts both in the government ministries and outside are of the view that if the Plan is not to face serious bottlenecks, the target should be revised upwards to 28 million KW. This seems to be a serious lacuna in the Plan.

There is no doubt that the Plan in its final version is not an unrealistic document. The Planning Commission has wisely refused to be bullied by exuberant critics who wanted its outlay to be increased by 30 to 40 per cent. However, successful implementation of the Plan will depend largely on the economic policies pursued by the government. If measures are taken to accelerate the pace of production both in agriculture and industry and all irritants to increase in efficiency are eliminated, the rate of savings (as well as investments) is likely to reach the targets listed. The moot question is: Will the government learn any lessons from its past follies and pursue such policies as promote growth ?

HSL : Turning the Corner

It is indeed gratifying to note that after incurring losses to the tune of nearly Rs 40 crores both in 1967-68 and 1968-69, the Hindustan Steel Ltd (HSL) is gradually turning the corner. With the hot metal production at its three mild steel producing units at Rourkela, Durgapur and Bhilai, aggregating 3.33 million tonnes during the nine months to December last, as against 3.19 million tonnes during the corresponding period last year, the output of ingot steel improving from 2.752 million tonnes to 2.789 million tonnes and that of salable steel from 1.92 million tonnes to 2.046 million tonnes, and a substantial step-up in the production at the Durgapur Alloy Steel Plant, this premier public sector undertaking is expected to close the current financial year with an appreciably reduced loss at about Rs 26 crores. The performance apparently would have been much better had adequate consideration been given to HSL's high capital block while revising steel prices recently.

A more encouraging fact, however, is that a good deal of concerted thought has been bestowed during the last 18 months on the three major problems confronting the undertaking. These are : (*i*) the filling up of gaps in the top managements both on the administrative and technical sides; (*ii*) the long overdue maintenance and breaking of technological bottlenecks; and (*iii*) labour trouble.

So far as the top management is concerned, no doubt some critical gaps still exist—the undertaking has still to have whole-time technical and financial directors—hence efforts are being made to train up talent from within the company's own employees so that the dependence on outsiders may be eliminated. The necessity for this apparently has arisen because it has not been possible to find suitable personnel to man these jobs, may be due to the general paucity of such men in the country or owing to the unattractive salary structure of the HSL. A good deal of reorganisation, of course, has already been done in all the departments and just below the top level.

As regards the maintenance problem, the critical gaps in inventories, particularly the fast-moving ones, have been located and attempts are being made to ensure a regular flow of spares and parts—as far as possible from the indigenous sources and if this is not feasible from foreign suppliers. Notwithstanding its cumbersome import licensing procedures, the central government has lent good support in this task. The main difficulty that remains is the long lead time both in respect of imports and supplies from indigenous sources. A phased programme has now been drawn up for improving the mechanical condition of the various units so that the tempo of activity can be raised steadily to the expanded levels of 2.5 million tonnes ingots at Bhilai, 1.8 million tonnes at Rourkela and 1.6 million tonnes at Durgapur. If the proposal to grant foreign exchange allocation for a period of five years instead of year-to-year allocation, which is being considered currently, is finally accepted, the problem of maintenance would apparently be solved once for all.

Attention is also being paid to fill the technological gaps which have remained in the expansions by and large completed at the three mild steel plants. The two main technological difficulties in regard to Bhilai are said to be the inadequate supply of high quality refractories and the diesel locos required for movement of materials and products within the plant. In the case of Rourkela, the main technological bottlenecks are the expansion of the lime calcining unit and the replacement of stripper cranes. At Durgapur, not only have the coke oven batteries to be rebuilt but also blast furnaces have to be relined. Some equipment, such as the VIC cranes, have to be completely overhauled or replaced. There are also difficulties in respect of supplies of locos and refractories. At the alloy steel plant, difficulty is being experienced in regard to ferro-alloys, apart from the gestation period troubles and the capacity of the stainless steel sheet rolling mill being not as expected.

With a view to overcoming the shortage of locos and refractories, imports are being arranged for meeting the requirements till indigenous capacity—for which plans have already been drawn up—comes up. In regard to locos, some improvisation has also been done by using Kirloskar Cummins engines. The replacement equipment has already been ordered abroad. Preliminary work has also been completed in respect of the expansion of the lime calcining unit at Rourkela; in the meanwhile, arrangements are being made to use lime chips. To meet the coke requirements of Durgapur, arrangements have been finalised with outside suppliers. It is hoped that all the technical difficulties would be over-

come during the course of the next financial year.

Given industrial peace, the HSL, therefore, should be able to improve its operations a good deal during the next financial year. If the utilization of capacity in 1970-71 is around 75 per cent, as against nearly 65 per cent this year, it is expected to nearly break even. The worst-hit among the various units of the HSL apparently is the Durgapur Steel Plant. Although currently there is apparent peace at this plant, there is enough evidence available in the wheels and axels shops of go-slow tactics. In Rourkela too labour trouble appears to be rearing its head. Bhilai also is having its share of labour unrest, though on a smaller scale. In an integrated steel plant, bottlenecks even in a minor shop or section can throw overall operations asunder. The workers, therefore, have to appreciate that the operations of an integrated steelworks are quite different from other undertakings where upsets in one unit may not do much damage. The HSL management has made valiant efforts to meet the grievances of workers through such measures as introduction of incentive schemes, training programmes, day-to-day dialogue with workers, etc. But the political overtones of labour trouble are easily discernible. Will the politicians do something about it?

Monetary Policy Needs Integrated Approach

THE MONETARY authorities are seriously worried about the developments in the money market in the past few weeks and it has been hinted that fresh attempts might be made to impose stringent restrictions and even make credit more costly. The increase in advances of the scheduled commercial banks in the first three months of the 1969-70 busy season to the extent of Rs 278 crores against only Rs 109 crores in the face of a slightly less pronounced growth in deposits, Rs 140 crores against Rs 145 crores, has been responsible for a reduction in investments by Rs 76 crores and an increase in borrowings of member banks from the central banking institution by Rs 104 crores in the same period.

In the first half of the last busy season investments declined only slightly by Rs 4.5 crores while borrowings recorded a modest rise of Rs 11 crores. It must be pointed out, however, that the larger dis-investment of securities in the past three months is due to the prevalence of a higher liquidity ratio at the beginning of the season. Actually even with a drawing down of investments, their ratio to deposits was even marginally higher during the week ended January 30, 1970, as compared to the corresponding period in 1969. As with record additions to deposits in 1969 banks experienced even a problem of utilising available funds till the fourth quarter of that year, it was not expected that a situation will suddenly develop in which it would be necessary for the monetary authorities to reverse their earlier policy of liberal lending and even jack up interest rates.

No comprehensive data have been made available about how the increase in advances has taken place since the middle of December and whether any undesirable tendencies have emerged. But it has been roughly estimated that between raw cotton and oilseeds about Rs 50 crores has been additionally advanced while sugar stocks have been mounting regularly. These latter alone could have accounted for an extra amount of Rs 60 crores. It could thus be said that the unusual demand for funds is only in respect of raw cotton and oilseeds and to some extent other commodities such as steel and non-ferrous metals which are in short supply and which are also costlier. But if the special character of the seasonal expansion of credit is borne in mind and selective controls are adopted, borrowing for genuine purposes need not be penalised.

If on the other hand a panicky view is taken and an unduly cautious attitude adopted it will lead only to fresh curbs on industry and trade and it is quite likely that the pace of economic recovery will be slowed down and there may be an accentuation of inflationary pressures if there is liberal lending at the same time to borrowers in the priority sectors. If the annual statements issued by some banks are any indication, it may even be argued by experts that the difficulties of the banking system are due partly to the increase in advances to constituents in the agricultural sector, small-scale industries and the provision of liberal credit facilities to the state electricity boards and other public bodies.

The Governor of the Reserve Bank and the custodians of the nationalised banks and others should, therefore, discuss at the meeting to be held on February 18, what the new factors are that have been responsible for a vigorous growth in credit and whether it would be desirable to restrict credit to the big borrowers while lending liberally to others. The difficulty has arisen because of the cumulative effect of the locking up of funds against foodgrains, a revival in economic activity and liberal lending to small borrowers after the 14 major banks were nationalised. It had been hoped that with a faster growth of deposits and a fairly stable level of prices no unmanageable situation would arise in the 1969-70 busy season and only in the second quarter of this year the Food Corporation of India might find it necessary to seek the assistance of the banking system in a big way for financing its procurement operations and create buffer stocks. While it has been contended that FCI and other agencies have not added to the pressure on the banking system so far, it is quite likely that in May-July next it will be necessary to effect large purchases of foodgrains if it is decided by the central government and chief ministers, in the next few weeks, that there need not be any significant changes in restrictions on the movement of foodgrains. The estimates of the output of food crops in 1969-70 indicates that a new record exceeding 100 million tonnes may be achieved. The earlier calculations have therefore been upset because of unexpected rise in prices for some commodities and the big accumulation of sugar stocks.

It is needless to say that the central government has a responsibility at this stage to reduce the pressure on the banking system by taking over the liability, if any, of the Food Corporation of India in maintaining buffer stocks. The procurement operations of the state governments also should not have any complicating effect. Again, the government has to redeem its promise to the sugar industry to create buffer stocks of sugar or it should change its policy in regard to fixation of quotas of sugar for controlled distribution or for free sale. If these adjustments are effected and it is also found that there has been speculation in some commodities which are not freely available then an undue rise in the credit-deposit ratio of the scheduled commercial banks can be avoided. It may not also be necessary

The second step towards socialism

to restrict refinance facilities as is now proposed or increase the liquidity ratio.

The developments during the period between now and end of March should be carefully watched. If the central and state governments also are prompt in making payments against outstanding bills there is no reason why an unmanageable squeeze in the money market cannot be averted. There are dark hints that even the refinance facilities may be made costly which would necessitate the fixation of quotas to the different banks as was done in earlier seasons and the charging of penal rates. If this is done there may be an undesirable rise in lending rates as banks are now free to charge higher interest rates with the removal of the ceiling on these rates by the central banking institution. Actually a minimum of 10 per cent is now being charged on advances against raw cotton and oilseeds. On previous occasions banks were not in a position to raise their lending rates to the constituents as a ceiling was in force and borrowing on a penal basis from the central banking institution resulted only in a quantitative restriction of credit. The Reserve Bank should not, therefore, adopt any hasty steps and tighten the monetary screw in such a way that the buoyant tone noticeable in the industrial economy is reversed and unexpected problems are created by an increase in demand for goods and services without a matching increase in their availability. It has also to be remembered that higher prices of some agricultural raw materials are due to the contradictions in policies of central and state governments. Even though the yield of the raw cotton crop in the current season will not be unsatisfactory, some state governments have been anxious to help cotton growers secure higher prices which were out of parity with those for competing crops. Likewise with regard to sugarcane the abundance is due to a highly attractive return from the crop with the payment of heavy premiums by sugar mills in earlier seasons under pressure from the state governments. An integrated approach should, thus, be adopted to the whole question as any attempt to administer credit controls in an isolated manner will only have a defeating effect.

Doubling Our Dollar Exports

Mr B.R. Bhagat, the Minister of Foreign Trade, has expressed his conviction of our capacity to double our exports to the United States. His recent tour of the USA seems to have impressed on him the vast possibilities of increasing the export of our traditional and non-traditional goods. But the Ministry of Foreign Trade has not spelt out the strategy for this purpose beyond announcing that production units would have to be set up with American investment and collaboration in certain areas of labour-intensive industrial goods for export to the US and the third countries. It is not known if this proposal has the backing of the union cabinet. Mr Bhagat has said that doubling of exports to the USA would call for a change not in our basic economic policy but in our methods of functioning. It would have been better if the minister had been a little specific as regards the changes he considers necessary.

For instance, does the Ministry of Foreign Trade feel that continuation of export duties will help to double our exports to the USA? Mr Bhagat will be interested to know that the American constitution forbids the levy of any export duty. American importers have often expressed surprise at the fact that a developing country such as ours, faced with a persistent shortage of foreign exchange, should look upon export duties as permanent sources of revenue. New Delhi's policy of making adjustments in the rates of export duties from time to time merely creates confusion and uncertainty in the country as well as abroad without enhancing the competitive capacity of our industries. If therefore the Government of India is really serious on enlarging our share in American imports, it should abolish all export duties.

The jute industry deserves special attention in the strategy to double our dollar earnings. Jute goods account for nearly half of our exports to the USA. It is significant that while the USA's imports of woven jute fabrics from this country increased from $89 million in 1961 to $150 million in 1968, the imports from Pakistan went up from $9 million to $33 million. The trend in the export of our jute goods to the USA in the last three years is given in the table below.

It will be seen that while the export

Value—in '000 rupees
(Figures in brackets are in '000 US $).

Article	Unit of quantity	Quantity 1966-67	Quantity 1967-68	Quantity 1968-69	Value 1966-67	Value 1967-68	Value 1968-69
Carpet backing cloth ..	'000 metric tons	119	130	166	52,51,27 (73,833)	58,82,53 (77,826)	75,99,20 (99,990)
Other hessian cloth ..	,,	150	144	114	48,28,90 (67,894)	43,07,79 (56,992)	35,47,53 (46,678)
Sacking cloth	Metric ton	2,016	3,482	2,952	73,35 (1,031)	76,64 (1,014)	71,16 (936)
Webbings of jute ..	,,	1,713	1,956	2,952	62,40 (877)	78,53 (1,039)	74,27 (977)
Jute bagging for raw cotton	,,	23,970	25,747	28,346	4,52,72 (6,365)	3,87,55 (5,127)	4,50,33 (5,925)
Hessian bags ..	,,	644	955	821	20,69 (291)	29,18 (386)	24,60 (324)
Sacking bags ..	,,	447	53	226	8,04 (113)	1,20 (16)	4,97 (65)

of carpet backing has been doing well, most of the other types of jute goods have received a set-back. The Ministry of Foreign Trade therefore should, in consultation with the Indian Jute Mills Association, devise appropriate measures by which the industry can retain its hold in the USA.

Apart from jute goods, the other important products imported by the USA from our country are cashews, tea, spices, cotton textiles, sugar, carpets and rugs, shellac, shrimps, mica, manganese ore and ferro-manganese, bristles, coffee, leather, hides and skins, oilseeds and vegetable oils. A comparison of US imports of these items from India between 1961 and 1968 shows many disturbing trends. For instance, import of Indian tea declined from $15.29 million in 1961 to $11.18 million in 1968, spices from $5.84 million to $1.35 million, ferro-managanese from $17.29 million to $1.30 million, manganese ore from $7.7 million to $1.8 million, hides and skins from $5.76 million to $2.90 million. It is necessary to analyse the reasons for the decline in the export of these commodities and to adopt effective measures to improve their competitive strength. The Ministry of Foreign Trade should energise the export promotion councils and commodity boards and draw up detailed programmes with specific targets for exports to the USA.

An interesting field which offers considerable scope for export to the USA is handicrafts. Our handicrafts are already doing well in the USA. They are selling well and with greater efforts it should be possible to step up exports further. These items include precious, semi-precious and synthetic stones, jewellery of precious metals, imitation jewellery, art metalware, woodwares, ivory products, paints, sculptures, dolls and toys. Our export of precious and semi-precious stones to the US went up from Rs 123.78 lakhs in 1964-65 to Rs 258.14 lakhs in 1967-68, art metalware from Rs 82.35 lakhs to Rs 120.71 lakhs and dolls and toys from Rs 0.11 lakhs to Rs 5.56 lakhs. If our exporters keep a close watch on the changing fashions in the USA and adapt their products accordingly, there are considerable prospects for stepping up the sales of our handicrafts.

The flow of commercial intelligence from the USA to the exporters in this country has been irregular and inadequate. It is necessary to strengthen our embassy in Washington and our Consulate in New York in order to ensure that our exporters are promptly and fully kept informed about the changing trends in the USA in regard to prices, fashions, the activities of our competitors and so on. Last year an Indo-American Chamber was set up in Bombay under influential auspices. But it is not known to what extent this chamber has been contributing to the promotion and diversification of Indo-US trade.

The Ministry of Foreign Trade should remember that we can achieve big success in the USA only if our exporters resort to aggressive selling in the real sense. This means frequent visits by our businessmen, intensive publicity, setting up offices and so on. All this will involve considerable expenditure of foreign exchange. So, unless the Finance Ministry takes a realistic long-term look at the US market and adopts a liberal policy in regard to the release of foreign exchange for business tours and publicity, Mr Bhagat's ambition of doubling our dollar earnings cannot be achieved.

Shape of Things to Come

R. V. MURTHY

THE PARTING gift of the retiring trio of the Reserve Bank of India — Mr L.K. Jha, Governor, is shortly proceeding to Washington as India's Ambassador in the USA, while Messrs J.J. Anjaria and B.N. Adarkar, Deputy Governors, have retired, or are due to retire any time — is no unmixed blessing. In less than a week, the Reserve Bank has issued, in quick succession, three directives which surely bears no relation to the number of the top men of the Reserve Bank retiring (it also happens to be three by a fortuitous coincidence). The first was on January 21, when the Reserve Bank withdrew, with immediate effect, the ceiling of 9.5 per cent interest on advances by scheduled commercial banks and prescribed a minimum rate of interest of 10 per cent on advances against foodgrains, oilseeds, vegetable oils and vanaspati and cotton and *kapas*; the second was on the following day — January 22 — when the Bank advised scheduled commercial banks to use the utmost caution in supervising the use of credit limits in excess of Rs 50 lakhs each to any party against cotton, oilseeds and oils, and the third was on January 24, when the Bank conveyed to the custodians of the 14 nationalised banks that they should fix definite repayment schedules for advances made against shares.

Criterion for Regulation

Any regulatory measure is to be judged by whether it is justified and, if so, whether it is adequate and also whether it will yield the desired results. Viewed, dispassionately, it is a moot point whether these measures would prove successful; on the contrary, they might produce a stalling effect all round as, indeed, they have already begun to. It is not only dealers in commodities that have been specifically selected for the credit squeeze and the sharebrokers who have become unnerved, but also bank customers and industrialists, each for different reasons.

Let us first state and analyse the three measures. To take them in the chronological order. The January 21 measure seeks both to increase the cost of credit by charging higher rates and higher margins and to restrict its availability by reducing the ceilings on physical quotas fixed in respect of individual banks. Thus, all scheduled banks have been asked to charge a minimum rate of interest of 10 per cent on advances against foodgrains, oilseeds, vegetable oils, including vanaspati, and cotton as well as *kapas*. (The rate of interest on export credit, however, will continue to be subject to a ceiling of six per cent). The minimum margins on these advances have also been raised: from 40 per cent (in the case of oil mills and vanaspati units) and 50 per cent (in the case of traders) to a uniform 60 per cent; from 25-40 per cent to a uniform 60 per cent again in the case of foodgrain and from 50 per cent to 60 per cent in the case of advances against cotton and *kapas* to parties other than cotton mills, besides imposing a margin of 40 per cent on advances against these commodities even to cotton mills). Further, ceilings on the levels of advances of individual banks against certain commodities (oilseeds, oils and foodgrains) also have been reduced. (The new ceilings are 80 per cent of the 1968 levels in the case of foodgrains and 70 per cent of the 1967 levels in respect of oilseeds and oils).

The Objective

Now, there has been a ceiling on advances ever since September 25, 1964 (even before this, i.e. in 1960, it may be recalled, there was a Reserve Bank ban against banks charging less than five per cent on their advances) when the bank rate was raised from 4½ per cent to five per cent. It was then nine per cent and applied to all Indian banks with aggregate demand and time liabilities of Rs 50 crores and above and all foreign banks. The objective then was, it was stated, to prevent these banks from increasing their total credit through resorting to the Reserve Bank accommodation even at higher rates by passing on the extra cost to new borrowers.

When the bank rate was, again, raised from five per cent to six per cent on February 17, 1965, this ceiling also was raised from nine per cent to 10 per cent, but when there was a reduction in the bank rate from six per cent to five per cent on March 2, 1968, the ceiling, in turn, was reduced, not to the original nine per cent though, but to 9·5 per cent. What is novel about the latest measure is that, while a ceiling of 10 per cent has been fixed in respect of advances against certain commodities, the ceiling of 9·5 per cent on the bank's lending rates has been wholly withdrawn, thereby giving the banks a free hand to charge any rate (subject only to different limits fixed under the different moneylenders' laws in the states). What the effect of this is going to be on the cost structure of our industries, which largely depend on bank finance for their working capital, is difficult to guess, but the result is bound to affect the competitive ability of the Indian manufactures that might be hit. The increase to 10 per cent in respect of advances against the specified commodities alone is estimated at about Rs 15 crores per year.

The second measure — that of January 22 — may be said to be more or less an elaboration of the one introduced on the previous day. For, it also concerns advances against cotton, oilseeds and oils. The elaboration is by way of a cautionary note exhorting all scheduled commercial banks to exercise the utmost supervision on the use of credit limits in excess of Rs 50 lakhs in each case to any party. It is not clear as to how this supervision is proposed to be undertaken and what special agency there is or has been created for the purpose.

Repayment Schedule

By the third measure, the Reserve Bank directed the custodians of the 14 nationalised banks to fix definite repayment schedules for advances against shares. This has to be read along with another directive of the Reserve Bank on January 23 by which these custodians were instructed to seek the Reserve Bank's prior permission for investments in excess of Rs 1 lakh in shares and debentures of joint-stock companies or any advances against them above Rs 5 lakhs. Besides, the custodians have also been directed to seek the prior approval of the Reserve Bank for putting through any transaction involving an advance in excess of Rs 25 lakhs.

It is the big interests that have really been unnerved by the Reserve Bank directive regarding fixation of definite repayment schedule for advances against shares. The objective underlying this, according to official circles, is to prevent bank finance from being employed for cornering of shares, on the one hand, and for speculation in commodities, on the other. While the objective is unexceptionable, the question is whether the proposal is feasible or enforceable all at once. Not much thought seems to have been given, in this connection, to the purpose for which these advances may have been secured. In a number of cases, it is known, these advances have provided the nucleus for starting new enterprises. Whether this is acceptable or not to the powers that be (it has been construed as inter-locking of funds and objected to as such by some), the fact remains that this has been an acknowledged form of financing new industrial enterprises.

in all countries with a market economy.

Granting that the authorities do not approve of this practice, those who have invested the moneys got by them by pledging their shares in new industries cannot be expected to repay them overnight or, for that matter, even over a few years. Many or most of them simply do not have the liquid cash to spare and, if they are driven to the wall, they may be obliged to dispose of their holdings, which would be disastrous in the prevailing conditions of our share markets. So it behoves the authorities to be extremely circumspect in permitting if not precipitating, any such large-scale dumping of shares on an already declining market.

Retrospective Effect

While to ban this way new company formation in future is another matter, to give it a sort of retrospective effect, as the proposal now made of fixing a time schedule for repayment of all advances against shares means, would be like the last straw on the camel's back. Enough time, say at least 10 years, must be fixed for the complete repayment by conveniently phasing it over the period. As regards the stipulation in the case of share brokers and dealers, namely that the advances to them should not be against the same block of shares, exception cannot be taken, inasmuch as it concerns the extent of precise security about which the lending bank is undoubtedly the best judge, but even here, any action that may be taken must be such as not to adversely affect the settlement business of the share market or markets concerned.

We are told that all these measures are aimed at discouraging trade and industry from holding excessive stocks of commodities which are at present subject to growing price and demand pressures, especially at a time when bank credit has been expanding speedily. That there are shortages in a number of commodities and then there has been a sharp rise in demand for these are irrefutable facts; also irrefutable is the fact that there has been a sharp rise in bank credit.

During the three weeks ended January 16, 1970 the rise in bank credit amounted to nearly Rs 148 crores. But it is necessary to appreciate, once and for all, that merely monetary and fiscal measures cannot set right imbalances in the supply-demand mechanism. There must also be physical measures, if we may say so. By physical measures we mean the physical act of augmenting supplies. More production to meet the growth in demand is the only effective answer to the problem of rising prices. True, this is a long-term remedy, but the public of this country has been repeatedly told of this long-term remedy year after year by the authorities, while some of their policies and actions betimes have been positively inhibiting production.

Moreover, before taking fright at the first sign of a simultaneous rise in commodity prices and expansion in bank credit, as the Reserve Bank seems to have done, one would like to know if ample allowance has been made for higher prices occasioned by increases in prices granted by the government itself, as, for instance, in the case of steel, the progress of the busy season, the intensification of the sugarcane crushing season, the pick-up in tea exports, the higher purchasing power in the hands of our agriculturists, the restriction on movements of commodities by some governments and the rising tempo of deficit financing, among others.

All this is not to condemn as unconscionable all the measures taken by the Reserve Bank but only to caution the Bank that, inasmuch as several factors have brought about the cumulative effect of rising prices, it should not allow itself to be hustled into following any text-book maxim in isolation, regardless of the realities of the situation, on the one hand, and unmindful of the overall repercussions, on the other. Certain market tendencies, such as overtrading or speculation or, for that matter, even inter-locking of funds no doubt need to be kept in check especially when their unwholesomeness begins to manifest itself, but, in the process, no hasty step must be taken as would adversely affect any important sector of the economy.

Finally, we must refer to the latest detailed directives to the custodians of the 14 nationalised banks. These may have all been in the relevant legislation informally and even what has been done may be only formally to place them on record, but, in doing this, all that the Reserve Bank has succeeded in doing is to bring down the prestige of the custodians in the eyes of the public. It can no longer be claimed that they now enjoy all the freedom which the Prime Minister assured they would continue to have when the 14 banks were nationalised. But this is only a preview of the shape of things to come, and, having accepted to be part of the new order of things, we suppose, it is a Hobson's choice now to the custodians.

The Right to Property

A CORRESPONDENT

AT THE requisitioned meeting of the AICC in Delhi in November, some radical elements moved for deletion from the Constitution of the fundamental right to property. This was followed by the report of the Malaviya panel on economic policy which supported this proposal. All this perturbed the public mind and the working committee of the ruling Congress at the session of the Congress at Bombay did not include this. The Prime Minister and Mr Chavan did not support any precipitate action. However, a distinction has been sought to be made between the right to property and the fundamental right to property. Subsequently some of the members of the working committee of the ruling Congress made it clear that it was not the party's intention to take over the property rights of small cultivators and weaker sections of the people and that what was in mind was "reasonable restrictions on unbridled right to property subject to national and social discipline within the limits of the Constitution."

The distinction between the right to property and the fundamental right to property is a quibble and also too subtle and unpractical. The large majority of written constitutions have laid down the right to property with the other rights and made no such distinction. The right to property was laid down in the historical documents such as the Magna Carta, the French Declaration of Rights of Man and the American Declaration of Independence. Rights embodied in a written constitution are of little value if they can be modified according to the views of a passing majority of a party in Parliament.

The Supreme Court in the case of Golak Nath v. the State of Punjab held, by a majority, that any amendment of the Constitution which curtailed the fundamental rights embodied in Part III of the Constitution was void. It is therefore difficult to see how the Constitution, can be amended under the procedure prescribed by the Constitution, so as to draw any distinction between the right to property and the fundamental right to property and, if it can be done, what practical and useful purpose it would serve. The Supreme Court in the decision referred to above observed that all the Directive Principles of State Policy embodied in the Constitution can be reasonably enforced without taking away or abridging the fundamental rights. The

move of the extremely radical elements in the Congress to delete the fundamental right to property from the Constitution is as ill-advised as it is unnecessary for attaining social objectives.

These radical elements in the ruling Congress party consider this step necessary to get rid of serious inequalities and usher in socialism more effectively. It is true that there is inequality. As has been observed in a spirit of humour by one writer, the magnitude of inequality in our socialist state can be roughly judged by a comparison of the standard of living of the Prime Minister with that enjoyed by a slum dweller in a Bombay chawl, but some degree of inequality is inherent in any progressive society. It is there in the USSR also.

Inequality, so far as it is necessary to reduce it in our State, which has as its aim a socialist pattern of society, can be reduced legitimately, not by a method which would shake the faith of the community in the democratic principles embodied in the Constitution, but by legitimate means such as a steep wealth tax and inheritance taxes. What is essential in a developing country such as ours is the incentive to effort. What should be given priority is levelling up and not levelling down.

Inhibiting Expansion

As has been aptly observed by Prof. Hanson of the Leeds University in his book *Public Enterprise and Economic Development*, "The real danger in India, as in many countries, is that excessive concentration on fairness in distribution may inhibit the expansion of wealth available for distribution. In India today, for instance, the most desperate social need is not to close down the gaps between the Tatas, Birlas, Dalmias, etc. and those who are employed in their manufacturing undertakings, for, although the gap may appear to be utterly inequitable, the closing of it would not conspicuously improve the workers' existing standard of living, nor assist the process of industrial expansion upon which the raising of these standards depends.

Moreover the worker employed in large-scale industry is well off in comparison with his compatriot who has failed to find such employment. The most socially significant form of inequality, in fact, is that which divides the employed from the unemployed or under-employed and the latter, unfortunately, are increasing in number in both industry and agriculture among both educated and uneducated. Both political and social considerations point to initiate policies which, by maximising growth, maximise employment. Growth creates resources which can at least be devoted to relieving the pitiable condition of the unemployed and the under-employed."

The right to property is recognised by political thinkers to be necessary for the development of man's personality. The right to property also fulfils the function of rewarding industry and enterprise. Through it the individual also develops responsibility by the manner of its use, by exercising self-restraint, and if some individuals abuse it, that is the price society has to pay for an institution which has been recognised from the earliest time as not only an incentive to effort but as a bulwark to the individual's independence.

The Chief Principle

An American jurist wrote, "Of the three fundamental principles which underlie government and for which government exists — the protection of life, liberty and property the chief is property — the history of civilisation proves that ...... the security of society depends upon the extent of the protection afforded to the individual citizen against the demands and incursions of government. The character and value of government is measured by the security which surrounds the individual in the use and enjoyment of his property. Courts should be slow to lend aid to government in the modern tendency to invade property rights."

In the modern welfare state, the state through direct ownership in some cases and regulation in others endeavours to improve the standards of living of the people who have little property, but if this is carried too far not by legitimate means but by methods like expropriation or confiscation it would lead to a species of totalitarianism and in the process diminish the national dividend and economic welfare instead of promoting them. Social control over the rights of property, so far as the public interest demands, can be secured within the existing Constitution without infringing the fundamental rights.

Public Interest

Article 19 (6) of the Constitution already provides for the legislature to pass laws imposing, in the public interest, reasonable restrictions on the right to property. If the state acquires property of an individual for a public purpose, the adequacy of the compensation cannot be challenged before the courts. It is not that under the Constitution there is an unbridled right to property.

Let us not ignore the pertinent warning against tinkering with fundamental rights expressed in his judgment by one of the learned judges of the Supreme Court in the case referred to above, the judge who considered that of all fundamental rights, the right of property was the weakest, "I am apprehensive that the erosion of the right of property may be practised against other fundamental rights. . If a halt is to be called, we must declare it to the right of Parliament to abridge or take away fundamental rights. Small inroads lead to larger inroads and become as habitual as before our freedom was won. The history of freedom is not only how freedom was achieved but how it is preserved. I am of the opinion that an attempt to abridge or take away fundamental right through an amendment of the Constitution can be declared void."

Indo-Soviet Economic Co-operation

A. I. ALIKHANOV

(Counsellor for Economic Affairs, USSR Embassy in India)

FEBRUARY 2 is a remarkable day in the history of Soviet-Indian economic relations. Fifteen years ago the governments of the USSR and India signed the first agreement for economic and technical co-operation in the construction of the Bhilai Steel Plant. This co-operation has strengthened and expanded in later years and now it is an important factor in the development of friendly relations between our countries.

The economic relations of the Soviet Union with India as well as other countries which have taken up the development of their economies are based on the idea of peace and friendship among nations, on principles of equality, non-interference in each other's internal affairs and support to the people's fight against imperialism and colonialism, and on the principle of peaceful co-existence of states irrespective of their social systems.

A characteristic feature of Indo-Soviet economic co-operation, is the fact that the Soviet Union renders assistance mainly for the development and strenghthening of public sector in the key branches of India's economy. Thereby a basis is being laid for the development of India's industry and the consolidation of her economic independence, so vital for the country's further advance and for raising the living standards of the its people.

Dozens of large industrial projects have been built in India's public sector with the co-operation of the Soviet

Union. These enterprises have already been making considerable contribution to the development of India's national economy. The Bhilai Steel Plant which is the first big industrial project constructed by the joint efforts of India and the Soviet Union is well known far outside India. At present this plant is the biggest enterprise of the steel industry in India: 28 per cent of steel smelting capacity of India is concentrated at this plant. Work is under way to expand the plant to produce 3.2 million tons of steel annually with a possibility of further expansion up to 4.2 million tons.

Since the beginning of its operation the Bhilai Steel Plant has produced about 13 million tons of steel which has enabled India to save hundreds of millions of rupees in foreign exchange. Bhilai products also earn valuable foreign exchange. This plant was India's first metallurgical enterprise to export its output in large quantities to foreign countries. The plant has already exported to Japan, the USSR, Ceylon and other countries nearly two million tons of its products, earning hundreds of millions of rupees in foreign exchange. The construction work, with Soviet co-operation, of another giant steel plant in Bokaro, which will be the largest in south-east Asia, has been going on in full swing. The first stage of the plant will give India 1.7 million tons of steel annually, the second stage four million tons, and there is a possibility of further expansion up to 5.5 million tons of steel per year.

The plant has been designed keeping in view the latest advances in metallurgy, and the project design provides for large blast furnaces with useful volume of 2,000 cubic metres, and steel smelting in convertors with the application of oxygen. The commissioning of the first stage of the plant will make it possible for India to substantially reduce the imports of steel sheet products, on which huge amounts of foreign exchange are spent annually.

Korba Project

The construction of aluminium project in Korba to produce 100,000 tons of aluminium annually — the first aluminium plant in the public sector — will be of great importance for the development of non-ferrous metallurgy in India.

Of great importance for the country's industrialisation are also the up-to-date machine-building plants built with Soviet co-operation. These include, the Heavy Machine Building Plant in Ranchi with a capacity of producing 80,000 tons of machinery a year, the Coal Mining Machinery Plant in Durgapur with a capacity of producing 45,000 tons of mining equipment a year and the Heavy Electrical Equipments Plant in Hardwar which annually manufactures turbines and generators with a total capacity of 2.7 million kilowatts.

With these enterprises, attaining their rated capacity, India will be able to meet her requirements of many types of industrial equipments, including metallurgical, mining, oil-drilling, power and other equipment.

Industrial projects, constructed in the public sector in recent years including those set up in co-operation with the USSR make it possible to build new industrial projects on the basis of indigenous equipment and materials. Broad vistas are also opening up for the export of industrial equipment to the third countries.

It is important to point out that more than 60 per cent of equipment for the Bokaro Steel Plant is already being produced in Indian enterprises and a considerable part of it at the machine-building plants in Ranchi, Durgapur, Hardwar and at the Kota Precision Instruments Plant. For the sake of comparison it may be pointed out that for the first stage of the Bhilai Steel Plant

about 90 per cent of the equipment was delivered by the USSR. The plant in Hardwar together with two other public sector heavy electrical equipment plants have made it possible not only to equip the thermal and hydro-power stations with machinery manufactured at these plants, but also to transform India from a country importing power equipment into one exporting its output to other countries.

Before Independence, the country's requirements of oil and oil products were almost entirely met from abroad, for which huge amounts of hard currency were spent. However, with the co-operation of Soviet specialists and on the basis of the equipment supplied from the USSR, the Oil and Natural Gas Commission carried out an extensive programme of prospecting work in the country on a scientific basis, which resulted in the discovery of oil in large quantities.

Discoveries in Oil

About 20 oil and gas deposits have been discovered. During the period of India-Soviet co-operation in this field, the Oil and Natural Gas Commission has extracted more than 14 million tons of oil, enabling the country to save over 1,000 million rupees in foreign exchange.

As a result of research conducted on a Soviet seismic ship, wide prospects have opened for oil prospecting at the Gulf of Cambay. The Indian and Soviet technicians have already started prepratory work for sea drilling. To process the extracted oil, large modern oil refineries have been built with Soviet technical co-operation in Barauni and Koyali each with a capacity of three million tons a year.

As a result of Soviet-Indian co-operation in the field of oil extraction, the public sector accounts for more than 50 per cent of the entire oil extracted in the country, while the capacities of the state-run oil refineries in Koyali and Barauni make up nearly 30 per cent of all the capacity in India of oil refining.

With the co-operation of the Soviet Union, 15 power stations, including power units in industrial establishments, with a total capacity of about 3.2 million kw, have either already been built or are nearing completion.

The USSR is co-operating with India in building several enterprises of the coal-mining industry in the area of Korba, Madhya Pradesh. Two years ago a quarry at Manikpur was completed. Coal mined there is utilised to operate the Korba power station. The Banki mine has also been put into operation. Construction of the Surakachhar mine and the Kathara washery is nearing completion. The Antibiotics Plant in Rishikesh and the Synthetic Drugs Plant in Hyderabad, the large modern medical enterprises constructed in co-operation with the Soviet Union, are of great importance for fighting serious diseases.

In addition to the projects mentioned above there are other projects constructed in co-operation with the Soviet Union which are making considerable contribution in strengthening India's economy.

The economic co-operation with the Soviet Union also finds expression in increasing employment opportunities for the Indian people. Modern housing estates are being set up near the industrial projects. Besides, houses for workers and employees, schools, hospitals, cultural establishments and sports premises are being built. All this ultimately helps raise the living standards of the population. The construction of the new projects stimulates the creation and development of allied branches of industries. For instance, the machine building plants which have been constructed make it possible to furnish indigenous plant and machinery for steel plants. These plants in their turn help the extraction of ore, coking coals and limestone. Similarly, on the basis of the products of oil refineries, plants for producing chemical fertilisers and various petrochemical items are being set up.

The Soviet-Indian economic and technical co-operation is many-sided. More than 30 industrial and other projects, which are built with Soviet co-operation have already been fully or partly commissioned and about 35 projects are being designed, constructed or planned for construction. In recent times this co-operation has extended to new lines.

Whereas in first years of co-operation between our two countries the main attention was being paid to construction of the industrial projects, at the present time the efforts of Indian and Soviet organisations and experts are in addition being directed to solving the problems of speedy build-up of rated capacities of the constructed projects and attaining their efficiency. This co-operation embraces, planning and organisation of production, training of maintenance personnel and operators, raising the labour productivity, better utilization of sophisticated and unique equipments, etc. Indian specialists together with Soviet experts are working out and putting into practice a wide-range of measures to reduce production costs, to increase labour productivity, to make economic use of raw and other materials, fuels, electric power and to reduce other expenditures. These measures contribute to raising the profitability and economic efficiency of the enterprises.

Some ministers of the USSR together

with experts visited India recently and had discussions with Indian ministers & heads of the corporations and the plants on the improvement of the functioning of the machine building plants constructed in co-operation with the USSR. Over 2,000 Indian specialists have already been trained in the Soviet Union. Besides, over 40,000 Indian technicians, foremen and skilled workers have been trained at the collaboration projects, at training centres and directly at their working places with the active participation of Soviet specialists.

The Indo-Soviet economic co-operation will continue to develop during India's fourth five year Plan in heavy industry including the construction of Bokaro Steel Plant, the further expansion of the Bhilai Steel Plant, the construction of a large aluminium plant, oil and gas prospecting and in the sphere of training qualified technical personnel. The friendly relations between the USSR and India, conform to the interests of Soviet and Indian peoples and help in strengthening peace in Asia and all over the world.

Rural Banking : Search for Techniques

S. J. R.

INDIA HAS been fortunate in having three successive bumper harvests and these have resulted in considerable expansion in rural incomes and savings. Agriculture accounts for nearly half of our gross national product. According to one estimate, this year it will account for GNP worth Rs 5,000 crores. This obviously is not a small sum. The government has been pumping large sums into the rural sector during the last few years. It is obvious that the higher outlays in the private and public sectors in the fourth Plan would further accelerate the process.

The demand for agricultural inputs has increased manifold and to further sustain the emerging agricultural revolution, the increase in the quantum of finance would be a prerequisite. The demand for rural credit over the years since 1951 when the Rural Credit Survey was conducted has grown tremendously. During the fourth Plan period factors such as the increased use of modern inputs and improved practices, use of high-yielding varieties, etc. are bound to affect the quantum of credit requirements. The demand will also undergo a measure of diversification. There will be a need not only for short-term credit to purchase fertilisers and pesticides but also for medium and short-term credit for such purposes as land development, minor irrigation and rural electrification.

Considerable Demand

The All-India Rural Credit Review Committee came to the conclusion that the demand for rural credit has gone up considerably, but the supply has lagged behind. It has, however, estimated the total production credit requirements of the agriculturists in 1973-74 at around Rs 2,000 crores, of which Rs 849 crores would be required for the high-yielding variety areas and Rs 410 crores for non-HYP areas and the remaining for non-irrigated areas. The Committee has estimated long-term credit requirements at about Rs 1500 crores, of which Rs 725 crores would be for minor irrigation. Rs 150 crores for soil conservation. Rs 300 crores for heavy machinery, Rs 125 crores for area programmes, Rs 100 crores for rural electrification, and the balance Rs 100 crores for reclamation, plantations, etc.

The Rural Credit Survey, 1954, had recommended the strengthening of the co-operative structure so as to make it the main instrument of rural credit. The Review Committee has noted "serious and avoidable failures on the part of those who implemented the policy". The Review Committee criticised several inadequacies in the co-operative sector. "The assumption of the Rural Credit Survey Committee concerning the potentialities of co-operative development under integrated scheme substantially failed to materialise in the large areas of the country". Co-operatives failed to meet the production credit needs adequately; tenants and sub-marginal cultivators found it difficult to get financial assistance from the societies. Co-operative societies have not only failed to mobilise enough deposits but have been saddled with difficulties of mounting overdues. The co-operatives, in most cases, have been badly managed.

Catalytic Agents

The Review Committee has recommended that it will not be prudent to depend entirely on co-operatives for meeting the credit requirements in the rural sector: banks should play a more active role in this sphere. The idea has found favour that banks should not be content with their traditional role as "purveyor of credit" but should act as catalytic agents in the nation's economic development. According to All-India Rural Debt and Investment Survey of the Reserve Bank of India in 1961-62 commerical banks account for a very small percentage of the total credit made available to the farm sector. Traditional money-lenders continue to hold their sway as can be seen from Table I.

With the nationalisation of 14 leading banks, this picture has changed. In the years to come, nationalised banks will have to undertake a bolder lending effort. Their role now should be of catalysts for the whole gamut of agricultural and agro-industrial activity and not just that of providing finance.

TABLE I

THE SHARE OF THE VARIOUS CREDIT AGENCIES IN THE TOTAL FARM CREDIT

Credit agency	Percentage share
1. Government and co-operatives	15.4
2. Agriculturists and professional moneylenders	62 4
3. Relatives	6.4
4. Commission agents and traders	7.2
5. Landlords	0.9
6. Commercial banks	0.4
7. Others	7.7
	100

The nationalised banks should welcome this since they have come on the scene at a time when the rural economy is passing through a period of transition to higher technological standards. Their entry in the field of rural credit will help transform agriculture from the traditional into the commercial sector of the economy.

In industrially advanced countries, commercial banks play a major role in the financing of agricultural operations. In most of these countries, banks provide not only short-term credit for meeting the seasonal or yearly requirements of cultivators but also long-term credit for the purchase of farm equipment for effecting permanent improvement in the land.

In India, the investment of bank resources is biased against the rural sector. Agricultural financing, it has now been admitted, should cover the entire spectrum from production to consumption. Mere provision of credit is not enough: credit should be followed by technical advice. There is a long-felt need for an efficient agro-economic survey to provide soil testing facilities and advice on seed selection, fertiliser application and the use of pesticides.

The problem of rural banking is vast and complex. Provision will have to be made to provide credit facilities for millions, majority of whom are uncredit-

worthy according to current norms. In entering rural business, nationalised banks will have to take a long-term view. It is true that in the initial stages the flow of funds may have to be from non-rural areas to rural areas. Mere nationalisation of leading banks would not lead to reorientation in their lending policies unless special attention is bestowed on several allied factors such as complete reorientation of attitude at the branch level.

To meet the increased needs, the banks will have to mobilise, through adequate branch expansion policy, additional deposits, particularly from the rural sector. It is pointed out that over the next two years, 1800 additional rural branches are to be opened, out of which 800 will start functioning this year itself. In this connection, the study prepared by the Reserve Bank of India in April 1969 will prove very instructive.

Empirical Tests

In respect of unbanked towns, the towns covered are listed on the basis of a number of empirical tests such as: *(a)* it must be, either a municipal corporation or a municipal area or be under a town committee or a notified area committee or cantonment board; *(b)* it must have a density of less than a thousand per square mile; *(c)* it should have a population of 5,000; *(d)* of the total working population, 75 per cent should be engaged in occupations other than agriculture; *(e)* the place should have a few pronounced urban characteristics and amenities.

On the basis of these characteristics, the 1961 report listed a total of 2,700 towns in India. Table II gives statewise and population-wise details of unbanked towns. It shows that there were 617 towns where no office of a commercial bank was operating. Table III shows that out of these 617 towns, 173 were served by co-operative banks (up to the end of 1968). If these 173 towns having co-operative banks were excluded, there would appear to be 444 towns in India which have no banking facilities. In respect of unbanked towns with population above 10,000 there were 136 towns where there was no office of a commercial bank.

Again, out of these 136 towns there were 28 towns where co-operative banks were operating which meant that there were 108 towns in this group without any banking facility. It may be mentioned that the Reserve Bank has already issued licences for opening of bank branches in as many as 15 towns in this group. Another 15 towns are allotted to banks for opening their branches in this group. If these 30 towns are excluded from the total of 136 unbanked towns mentioned earlier, there would appear to be 106 towns available for opening of branches by commercial banks.

In the population groups of 10,000 and below, there were 481 unbanked towns of which 316 towns were in the population group of between 5,000 and 10,000. Out of the 481 towns, 145 were served by co-operative banks. The number of towns in the population group below 10,000 in respect of which licences were already issued was 33; further, another 61 towns were allotted to banks for opening of their branches. In this group there were still 387 towns which were available to banks for opening of their branches.

Statewise breakdown shows that the number of unbanked towns was higher in Tamil Nadu (91) followed by Madhya Pradesh (79), West Bengal (64), Uttar Pardesh (59), Bihar (52) and Maharashtra (50). However, on the basis of population groups, in the towns having population over 10,000, West Bengal topped the list with 24 unbanked towns followed by Tamil Nadu (21), Uttar Pradesh (16), Bihar (16). In the population group of below 10,000 the highest number of unbanked towns is in Tamil Nadu and Madhya Pradesh (70) each. In this group, there were 43 unbanked towns in Uttar Pradesh, 42 in Maharashtra, 40 in West Bengal, 36 in Bihar, 32 in Mysore and 28 in Andhra Pradesh.

Branch Expansion

It is obvious that nationalised banks are in a better position to open new branches in rural areas and thus accelerate the rate of savings. The Committee on Rationalisation of Branch Expansion recently appointed by the Reserve Bank of India in its report has recommended a co-ordinated, two-phased branch expansion programme to cover 303 unbanked centres by the end of 1970 and to develop 7 underbanked states. In the first phase, it is proposed to cover 106 unbanked centres (towns), each having a population of 10,000 and over. This phase would be completed by March 31, 1970.

In the second phase, it is proposed to open branches in 197 unbanked towns,

TABLE II

UNBANKED TOWNS IN INDIA

States	Number of unbanked towns (as of mid-April 69)	Towns with population below 5,000	Population between 5,000 and 10,000	Population between 10,000 and 20,000	Population between 20,000 and 50,000
Andhra Pradesh	36	5	23	6	—
Assam	26	9	11	5	1
Bihar	52	8	28	15	1
Gujarat	5	2	2	1	—
Jammu and Kashmir	27	24	2	1	—
Kerala	19	—	8	9	2
Madhya Pradesh	79	13	57	8	1
Tamil Nadu ..	91	26	44	21	—
Maharashtra ..	50	10	32	8	—
Mysore	37	19	13	4	1
Orissa	17	3	9	5	—
Punjab ..	14	9	5	—	—
Haryana ..	9	6	3	—	—
Himachal Pradesh	9	8	—	1	—
Rajasthan ..	21	2	13	6	—
Uttar Pradesh ..	59	13	30	16	—
West Bengal ..	64	8	32	19	5
Tripura	3	—	3	—	—
Nagaland ..	1	—	3	—	—
Pondicherry ..	—	—	—	—	—
TOTAL ..	617	165	316	125	11

each having a population of less than 10,000 in the seven states of Assam, Bihar, Jammu and Kashmir, Madhya Pradesh, Uttar Pradesh, Orissa and West Bengal. Also, 277 towns with a population of less than 10,000 in the relatively more developed states would be covered. This phase would be completed by December 31, 1970.

Simultaneously, the banks are expected to continue to open branches in the remaining 277 towns, each having a population of less than 10,000 in relatively developed states. The committee has also recommended guidelines for mutual adjustment among the nationalised banks in regard to allocation of centres in which more than one nationalised bank is already interested.

The most important recommendation is the adoption of a district or districts by a bank to act as a "lead bank", which can undertake a survey of the district under its care and identify areas requiring immediate attention in the field of intensive financing and branch banking facilities. A list of all unbanked towns and districts in underbanked states with bank-wise allocation has been submitted to the Reserve Bank for the issue of licences. Actually, the whole exercise of ruralisation of banking is one of educating the rural population.

New Methods

Nationalised banks are busy devising new methods and procedures to operate economically. It is suggested that to reduce the cost of operations, the rural branches should be exempted from the Shops and Establishment Act for the convenience of rural clientele. There is no reason why banks should not adopt a selective approach with highest deposit potential area for the maximum possible benefit.

It is good to know that some banks are already engaged in evolving their own schemes to suit conditions obtaining in their area. Some are experimenting with the idea of serving a "cluster" of villages from a central branch by moving from place to place over a week. Others are toying with the idea of "itinerant agents" who will accept deposits in fixed denominations or make advances in a similar manner. Most of them, however, have realised the necessity of operating compact branches. Some have found "one-man branch" more economical. Some are going ahead with the appointment of rural correspondents who secure business whose formalities are attended to by the nearest branch operating in the area.

It is an accepted fact that in the initial stages, rural banking will not be profitable but from the long-term point of view and with the improvement in agriculture, the return will not remain low. The gestation period will vary from three to five years. Branch expansion in rural areas would lead to monetisation in unbanked areas. This would expedite the process of commercialisation of agriculture.

Implementation of the branch expansion programme bristles with several practical difficulties. There is at present lack of adequately trained personnel. Emphasis should be on utilisation of local manpower. This obviously is a time-consuming process. Lack of remittance facilities and communications are two other major obstacles. Rural banks will have to adopt new techniques for deposit mobilisation and follow different schedules of working hours.

Deposit Mobilisation

There is a tremendous untapped deposit potential in the rural areas. Banks have to study models of savings and investment of the rural population and foster the habit of saving in the people. Since there are a number of claimants competing for the growing saving potential, banks will have to meet keen competition from other financial institutions. In this context, the recent setting of a target of 10 per cent growth in bank deposits is a welcome step.

With determined efforts this target can be exceeded. The per capita deposits in India are very low—Rs 47 as against Rs 6,000 in the USA, Rs 2,500 in West Germany, Rs 2,000 in the UK and Rs 1,800 in Italy. The ratio of bank deposits to national income in India has been lower than what it is even in some developing countries. The government, on its part, should take measures to improve the climate for deposit mobilisation. It should extend certain tax concessions and incentives to bank deposits such as those that are available in respect of postal savings, life insurance, provident fund and units of the Unit Trust of India. The success of rural banking, to a large extent, is linked up with the plans to cater to the credit needs of small farmers. The small farmer forms the backbone of

TABLE III

UNBANKED TOWNS SERVED BY CO-OPERATIVE BANKS

States	Number of unbanked towns (as of mid-April 1969)	Total number of unbanked towns served by co-operative bank	Towns with population below 5,000	Population between 5,000 and 10,000	Population between 10,000 and 50,000
Andhra Pradesh	34	1	—	1	—
Assam	26	5	2	2	1
Bihar	52	4	—	3	—
Gujarat	5	1	—	1	—
Jammu and Kashmir	27	13	11	1	1
Kerala	19	—	—	—	—
Madhya Pradesh	79	56	9	41	6
Tamil Nadu	91	6	2	3	1
Maharashtra	50	31	9	18	4
Mysore	37	13	6	3	4
Orissa	17	5	—	3	2
Punjab	14	4	3	1	—
Haryana	9	4	3	1	—
Himachal Pradesh	9	4	4	—	—
Rajasthan	21	3	1	—	—
Uttar Pradesh	59	14	3	7	2
West Bengal	64	6	—	4	4
Tripura	3	2	—	2	—
Nagaland	1	1	—	1	—
Pondicherry	—	—	—	—	—
TOTAL	617	173	53	92	28

our agriculture but he is often taken for granted. While the big farmers get financial assistance either from the co-operative or commercial banks, the small farmer is left unassisted. It is necessary to identify the problems of small but potentially viable farmers in their respective areas and ensure the availability of inputs, services, credit, etc to them. Keen concern for the economic progress of the weaker sections of the community is one of the major undertones of the draft fourth Plan.

The Plan envisages the establishment of small farmers' development agencies in 20 districts all over India as central sector pilot projects. The scheme is expected to benefit more than ten lakh small farmers. Under the scheme, a short-term credit of more than Rs 100 crores in aggregate will be given to farmers in the last year of the fourth Plan. A sum of Rs 1.6 crores is being provided for each of the 20 agencies for a period of five years. The central and state governments will be the shareholders in the agency. The experience of these is expected to enable the formulation of more comprehensive plans for adoption of small farmers in future.

Demographic Aspect of Consumer Demand

SRIPATI RANGANADHA

WHILE THE needs and necessaries, barring of course the basic ones, vary from person to person, groups of persons having almost identical desires for particular things need not be uncommon in any society. To cash in on this the marketers should regulate the supply of their specific wares in tune with the strength and intensity of the group demand. This is possible only if the services of seasoned marketing specialists are sought and utilized. In the main, the success of a business firm depends as much on effective product research as on, if not more, its cautious response to candid customers' complaints.

Now the issue is how to explore, evaluate and exploit the consumer demand. Any investigation of the present or potential consumer demand should start with an examination of the "character" of the consumers and the composition of the total market, commonly referred to as market profile, and will have to take into account demographic, sociological and psychological factors.

Theoretical Controversy

This article sets forth its demographic aspect and refers to the much voiced theoretical controversy provoked by the view that proliferation may be visualized as a sign of eventual prosperity. It examines the validity of this view held by communists, Catholics and certain capitalists who are opposed to the neo-Malthusists judging it in terms of marketing.

The study of demography includes, *inter alia*, income, education, occupation and life cycle. A passing reference to these factors considered from the view of consumption may be in order. Past studies reveal a subtle correlation between income and purchasing patterns ('income elasticity' of demand). Relying on income and group patterns, one can roughly guess with a certain degree of accuracy how much one is likely to spend for one's consumption. It is common knowledge that food, clothing, shelter and such primary essentials, for instance, will be least responsive to the fluctuations of income. The newly rich may probably consume a little more now than before. It is not, however, conceivable that the expenditure of higher income groups on their consumption will ever be beyond certain proportion of their income. It is equally well-known that expenditure on such items as electrical appliances, automobiles, furniture and similar necessary-luxuries will be highly sensitive to the rise of income. This is the substance, in simple, of Engel's Law on elasticities of demand.

Nature of Occupation

The nature of occupation has a bearing on the relation between income and expenditure. It is natural to expect that the richer classes would spend more on recreation than the middle classes. Experience shows, and it is gratifying to note, that the latter do spend on recreation as much of their income, if not more, as the former. The higher income brackets tend to spend much on their clothing and home furnishings to keep up their level of living, while the middle classes, by and large, seem to spend more on their amusements than on such necessities as clothing.

It is interesting to recall that the budget of the middle class people, according to Delhi family budget data, collected some years ago, inclines heavily on the 'miscellaneous' which consists of rent, fuel, transport and amusement in relation to cotton clothing. "It would appear," Mr da Costa maintains, "that the middle classes in North India, at least are prepared at a push to go without additional clothing but insist upon their amusements."* The "Why" of this nature is not far to seek for it lies in the realm of psychology.

The rich and particularly the new recipients of higher income as a class seem to be 'status seekers' and 'pyramid climbers'. They strive for recognition and advancement and as such rich clothing, flashy ornaments, decorative designs and similar attractive exhibits become "status symbols". On the other hand, the middle class salaried people, who have the least scope to raise themselves by their own boot straps, have every reason to feel that extra saving does not help them to keep up with the higher-ups. It is but natural that the middle classes seek a momentary wholesome entertainment rather than meet a necessity like clothing. Such a situation is bound to continue so long as great disparities in income exist.

Life Cycle

Katz and Lazarafeld treat the traditional demographic factors which include respondent's age, marital status, age of other family members and the rest as a single meaningful scale which they call a stage in the 'life cycle'. A scale of this nature gives an account of the various periods of an individual life marked off by several age frequencies. Depending upon the age frequencies of both sexes of a nation, the marketers strive to switch the supply of their wares attuning it to the needs of the nation. Children, for instance, below the age of 12 years generally create a demand for candies, cereals, toys and so on.

Similarly, teen-age children mainly go in for things pertaining to school. So also the adults aged between 20 to 35 seem to exert their influence usually on the demand for flashy clothes, expensive gadgets and built-in-obsolescence products. Again, middle aged people (about 40 to 50 years) who are sober in their tastes usually think twice before they order any durable fixtures, solid heavy appliances, hardwares and the like. The old people over and above 60 years invariably, like children, create a personal, influence on goods such as walking sticks, false teeth, pre-digested food, hearing aids, religious books, bifocal glasses.

There is indeed a correlation between population growth and economic prosperity. An excess in the growth of population may give rise to economic development provided there is an accumulation of capital linked with a wave of novel innovations which help to create more employment opportunities for the rapidly growing population. Such a phenomenon, as is obvious, does not prevail in India. Now it is hardly possible to provide gainful employment

*E. P. W. da Costa: "The Demand for Cloth". The *Hindu Textile Centenary Supplement*, Madras, March 18, 1964. P. iv.

to the existing millions and as such the mounting population will act as a drag and drain on the present economy in which the under-employed and the unemployed are hanging over.

It is expected of the ever-exultant entrepreneurs to view the booming population growth of a nation "as a built-in-guarantee of long-term prosperity and as a main prop of the expanding economy". They tacitly assume that the excessive growth of population will swell the demand for and supply of the goods and services considered in terms of current consumption and future production. Thereby the anxiety or fear of slump could be controlled. It is felt "babies by the millions would eliminate the possibility of serious depressions and serve as a back-stop against possible miscalculation in over-expanding the capacity of factories."*

Multiplier Effect

What is more, it is voiced that the growth of new arrivals could help the stepping-up of spending and in stimulating demand. The signs of ever-mounting needs are easily noticed by those who subscribe to the view that 'more people mean more markets'. Further, the very deep-seated desire to buy encourages the marketers to go in for more factories, commercial buildings, restaurants, transportation, home building, community facilities in order to accelerate it by pepping up consumption opportunities.** The 'multiplier' effect of all these ventures tends to reduce unemployment and raise the living standards of the community. This argument will be valid only if there is an effective demand and near-abundance, and drive and dash to exploit the same: "The very population growth by itself neither creates new markets nor provides scope for supplying them." The high rate of growth of population in a developing economy may mean larger suffering populace. In fact, it affects development. In a rural country such as ours where the major part of population depends on private or public wells, it is doubtful whether one can have enough chlorinated potable water for the existing teeming millions, not to speak of basic necessities and material resources. As population rises, the scarcity of ordinary drinkable water will become all the more acute.

Further, about 83 per cent of the total pupulation of India lives in villages which have negligible market facilities. As such, the major consumer commodities and services are mainly confined to and concentrated in national urban markets. Therefore, there is no point in basing the calculations of the sales potentials on the population figures.

Marketers, by and large, are interested in immediate consumer-buyers rather than in potential or ultimate consumers. The family, for example, is a consuming unit for a variety of products. The bread-winner or housewife decides when and where to buy for the family and the rest of them either accept what is given to them or suggest what they would like to have. Hence the marketers have to keep an eye on the principal purchasers rather than on their dependents whose numbers seldom matter at all. This analogy can be extended to a nation as a whole. It is held that a "considerable proportion of the total population (e.g., babies and small children) is without direct influence in buying process, except as its wants are interpreted by consumer-buyers (e.g., mothers) and to a considerable extent it is also true of other parts of the population".†

According to the recent population census (1961), 46.5 per cent of India, about half of the total population, is confined to "dependency ratio" which is made up of children and those aged over 60 who are outside the working age. One can easily visualize the economic strain implied in this ratio. In the economy of a country such as ours, where there is a population explosion this tends to level down the living standard of the nation rather than enhance it by creating more goods and services.

The correlation between the change in the size of the population and the relative change in the income can be explained as one of theoretical population elasticity concept. If the income of the population of a nation, for example, increases by a 'certain' percentage and consequently pushes up the size of the population at the same rate, then it is spoken of as elasticity of unity, whereas if the population, on the contrary, does not register a corresponding increase of the particular net national product, it is generally referred to as elasticity of zero. Thus the elasticity of population is usually positive and it lies between zero and unity.

Against this background, let us spell out succinctly the underlying principle of these two variables, namely population and national income.

Population elasticity tends to be positive where the society experiences either an income of a very low level or one of relatively high level. The intermediate income group of the society, contrariwise, is likely to indicate negative population elasticity. The rise of income in the latter group tends to affect, according to Professor Spengler, natality much more than mortality where the former is taken to mean "potential and sometimes actual reproduction."

The rate of natality (birth rate) probably, rises among the various levels of intermediate income receivers, but remains almost constant among the intermediate higher income groups. These intermediate high income classes incidentally are those who are likely to spend more than their income.

Ambitious marketers should always keep an eye on these intermediate higher income classes who seem to represent the so-called "quality market" which is a source of a nation's prospective repeat purchasers and step-up spenders. As indicated above, the growth of these intermediate higher income classes is not likely to blossom under the conditions of negative population elasticity. As such, the expected events do not present a rosy picture to the marketing strategists.

*Vance Packard: *The Waste Makers* (London, Longmans, 1961) p. 173.

**Ibid, p, 174.

†Theodore, Backman N. and Davidson, William R., *Marketing* (New York: Ronald Press Company, 1962), p. 58.

Eastern Economist 25 Years Ago

FEBRUARY 16, 1945

What is America's attitude to India's schemes of development and reconstruction? To this question no easy or simple answer is possible for American opinion, like that of other countries, perhaps even more than in others, is neither definite nor unanimous. It is very complex and a mixture of diverse attitudes prevalent at different economic and political levels and at different moments of time. It is, therefore, exceedingly variable, depending upon political and economic forces operating within and without. All that one can do is to set down this complex set of forces and explain the various strands of thought prevalent on the subject, so that India may, if she chooses, strengthen those forces operating in her favour, or at least shape her action and policy in the light of the international situation likely to develop after the war.

That the American business community, by and large, is willing and keen to establish closer and more direct contact with Indian trade and industry cannot be denied. Not only is this true of the members of the Foreign Trade Council whose views found vigorous expression in the speech of its President at the recent International Business Conference at Rye, but increased expansion of foreign trade has been recommended by the National Association of Manufacturers representing 12,000 firms, large and small and also by the National Planning Association, a very influential body shaping American economic opinion.

WINDOW ON THE WORLD

Skeleton in Roy Jenkins' Cupboard

JOSSLEYN HENNESSY

£ 500 M: FOR HOW LONG?

LONDON:

"WE DO not intend," Roy Jenkins, the British Chancellor, told the Americans recently, "to throw away the fruits of the hard slog that the measures of the last few years have brought".

Don't we? It looks to me that that is just what we *are* preparing to do!

The British Chancellor's recent tour of the USA was a terrific personal success. He is a persuasive speaker, quiet spoken, modest, and authoritative — altogether someone unusual in politics. When added to this, he was able to tell the Americans how he had got the UK balance of payments out of deficit into surplus, he had eminent American economists, mindful of their own as yet unreversed payments deficit, asking the Chancellor for the secret of Britain's success!

Mr Jenkins was vague in his answers, conveying the idea that he felt that it would be indiscreet for a visiting foreign fireman to tell the local brigade how to extinguish inflationary fires.

The Chancellor was right to be modestly vague. Let me try to explain why.

Effect of Devaluation

The 14.3 per cent devaluation of sterling in November 1967 has at last lifted the balance of payments out of a series of deficits into a surplus running at the rate of £500 million a year. But it is not enough to have achieved this in 1969. We've got to keep it up into the 1970s. To hit the jackpot once only would solve nothing. Whether we can keep it up depends on several factors, some outside our control. For example, will the USA go into a recession? Will the rate of growth of world trade slow substantially in 1970?

In 1969, the UK came close to holding its percentage share of world trade, although it did not increase it. Roy Jenkins kept imports down partly by the imports surcharge (that our trading partners regarded as contrary to treaty obligations), but mostly by the squeeze which kept production roughly stagnant throughout 1969. In other words, in so far as Roy Jenkins has succeeded, he has done so by adopting the Stop/Go policy which characterised the thirteen "wasted years" of Tory rule — the policy which Harold Wilson won the 1964 and 1966 elections by pledging himself to scrap!

The biggest single factor in Labour's victory in 1966 was Mr Wilson's image as the economic wizard who could guarantee efficient production free from labour troubles ("For why would Labour supporters", as the Labour Chancellor, my old friend Lord Gardiner, actually said) "want to strike against their own people in office?" Why indeed?) and steady sustained growth, free of squeezes.

Yet continuously since 1966 we have lived through the biggest squeeze in British economic history, with unemployed totalling 629,000 (2.7 per cent of the labour force), the biggest total since 1963 (a year in which figures were swollen by bad weather). Nor does this include another 38,000 unemployed in Northern Ireland.

Trade Unions' Demand

The Trades Union Congress has therefore called for steps to increase domestic consumption without waiting for the budget. And Jack Jones, the formidable secretary of the Transport and General Workers Union (membership 1,500,000) declared: "This is very bad news indeed. It confirms the need for immediate steps to drop restrictions and increase the money in people's pockets".

Before you read this, the TUC will have demanded from Roy Jenkins relaxation of hire-purchase restrictions and a cut in the Bank rate. "The brakes", they will have told him, "have been on long enough to ensure a substantial balance of payments surplus. Further squeeze will create even higher unemployment and lower productivity".

All the signs are that the squeeze is coming to an end, *not* by any planned programme of relaxation, *not* through any reduction in taxation, but in the most socially unjust and economically wasteful way: through an explosion of wage claims.

Do you remember how the government, as I reported in detail here on August 22 ("Strike Law in the UK") and August 29 ("The UK Strike Law Fiasco"), first of all squared up to the unions, with ferociously set jaws and lofty claims that the Labour government stood "above party for the national interest", only to retreat? A retreat? It was a rout. Mr Wilson began by saying that the passage in the then current session of the Labour government's bill to reform unions practice and prohibit unofficial strike was essential. "If the government stood on one side and did nothing it could be destroyed economically and politically... we cannot just fold our arms and say that because the TUC does not like it we will do nothing about it". The bill, Mr Wilson said, was an issue of confidence in the government *and if it were defeated he would call a general election.* The bill was essential to the UK's economic recovery, to the balance of payments, and to full employment. The survival of the Labour government depended on it.

Government Rout

Well!!! You'd have thought that, after nailing his colours to the mast with such a blast of trumpets, Mr Wilson could not possibly back down. But the TUC's determined opposition led to a split in the Labour party that found Mr Wilson in the minority. Hastily, he withdrew the bill. The *Economist* summed up the result succinctly: "Mr Wilson's surrender to the trade unions is bad news for the country and the Labour party, even though the party is in no mood to recognise this. It is an awful example of what happens when courage is diluted by dithering". And I quote the following from the pro-Labour *Guardian* (June 19, 1969) because it has prophetic overtones on today's situation: "... Mr Wilson wanted to show that a Labour government governed and that included its brothers and paymasters the trade unions. Yesterday's face-saver will be taken to demonstrate the opposite."

II

THE WAGE EXPLOSION

Since then, the wage settlements already agreed, which are range-finders for those to come, show what lies ahead. We have had, over the past three years, the largest wage inflation in history during a time when there were successive (1) tight squeezes, (2) high unemployment, (3) low growth, and (4) the new

'miracle supply policy' wages legislation, so who can doubt what will happen this year, with (1) the legislation abandoned, (2) rising unemployment to goad the unions to bully the government in the way which paid off last year, (3) government impotence proclaimed on the front page of every newspaper, and (4) an election coming up?

The latest public opinion polls all agree in showing leads of up to 7 per cent in favour of the Tories, and the star of Ted Heath, who has hitherto never seemed able to impose his "image" on the masses, is rising, according to the polls. These findings are decisive for Mr Wilson's strategy this year. A government which desperately needs to regain its popularity within a maximum of 18 months, and that was bashed over the head by the unions within the past 12 months, cannot resist wage claims. I can't see what is to prevent the TUC and Mr Jack Jones from obtaining the relaxation they demand. So growth will return — but at a price! Imports will rise towards the end of the year, just when the world economy could be turning down.

All this is just my prejudiced exaggeration? Well, what is today's front page news? In addition to the TUC's demands for relaxation quoted above, the *Times* page 1, column 1, story is headed: CHECKS ON PRICES AS WAGES CURB IS DROPPED, and this news with similar heading dominates all the other papers.

Delaying Power Dropped

The government is dropping its four-month delaying powers over wage settlements but is to set up a commission for Industry and Manpower with "wide powers" to veto price increases and company mergers. The commission will be able to require wage, price, and dividend increases to be reported to it with the object of keeping public opinion informed. All major firms (defined as those with more than £10 million of capital, and said to number over 400) will be liable to investigation. This amounts to setting up an anti-wicked-capitalist body, nicely calculated to provide talking points for Labour party candidates. In practice, it will waste innumerable manpower hours among senior executives while they debate whether a merger or a price rise, desirable on economic grounds, will be politically acceptable, filling in tons of forms, preparing evidence to give before the commission, and appearing before it, instead of getting on with their business. It is quite possible that, apart from this colossal waste of executive time and energy, the commission's bark will be worse than its actual bite, because ultimately the forces of the market will always prevail, but to the extent that the commission does show teeth, price controls do not help those whom they are intended to benefit; they distort and slow down market processes, add to costs, and spread frustration and inefficiency.

The foregoing analysis is, those who suspect me of prejudice may care to note, generally in line with the latest quarterly London and Cambridge Economic Bulletin (which, nowadays, is published in the *Times Business News*, though also obtainable from the Department of Applied Economics, University of Cambridge, Sidgewick Avenue Cambridge, price 2sh. 6d.).

Diversion of Resources

The Bulletin notes that the government's policy of diverting resources from consumption to exports has achieved a balance of payments surplus running at £500 millions a year in the second half of 1969, but points out that the continued rapid rise of personal incomes has been prevented from raising consumption faster only by repeated rises in indirect taxes.

The Bulletin draws attention to the dangers of the continued rapid rise of wage rates, earnings and income from employment, which caused labour cost per unit of output to rise by 3 per cent from 1967 to 1968 and by nearly 5 per cent from the first three quarters of 1968 to the first three of 1969.

The rise in income from employment, which (earlier experience suggested) *even without* an "incomes policy" could have been expected to average less than 5 per cent with an unemployment percentage of 2.4 per cent, was in fact 7 per cent from 1967 to 1968 and nearly as much from the first three quarters of 1968 to the first three of 1969.

Up to mid-1968, the rapid rise could be interpreted as the payments of increases postponed from the 1966-67 wage freeze but this does not explain the combined rise in 1968. One clue is that there has been a much higher percentage of unfilled vacancies than has in the past accompanied by 2.4 per cent unemployment. In earlier years vacancies of nearly 1.25 per cent would have corresponded to unemployment of 1.8 per cent which, in turn, could have been expected to accompany a rise in incomes from employment of over 6 per cent per annum.

The Bulletin believes that the explanation is that the introduction of redundancy payments and higher unemployment benefits has enabled the unemployed, instead of taking the first job available, to wait for the type or location of job that they prefer, and this has slowed the rate of flow of transitional unemployment through the pipelines.

The government's success in holding down personal consumption by increasing indirect taxes in order to transfer resources to exports, has meant that while the workers have been joyously throwing their cloth caps in the air at the rapid and sizable money wage rises that they have won, in real terms they have gained little.

The Bulletin suggests that this continual frustration of the attempts of unions, and other monopoly groups, to raise the real income of their members, has induced them to intensify their efforts, hence the rise in the number of strikes. The Bulletin regards the continued rapid rise in money incomes as "most disturbing". Consumption has only been held down and goods released for export by repeated rises in indirect taxes. Hence the balance of payments surplus of £500 million per annum.

No Tax Reduction

The trouble is that wage demands are doubling in intensity and that while increases in indirect taxes to reduce the real buying power of wages may have been fine and dandy in 1969, this year we are heading for an election, so tax rises are "out". The electors are looking for tax reductions. But as the effects of the higher taxes imposed in 1969 become exhausted, the rapid rise in personal incomes is likely to lead to a much faster rise in personal consumption, which will leave Roy Jenkins no margin for any tax reductions.

The most likely way in which a faster rise in money incomes would bring a faster rise in personal consumption would be by reducing the balance of payments surplus by (1) attracting more imports and (2) reducing the competitiveness of UK exports.

"Such a development," the London and Cambridge Bulletin observes demurely, "would presumably oblige the government, *if it were determined to maintain the balance of payments* (my italics), to impose still further restraints on home demand."

Well, everything is possible, but imagination boggles at the political shindy that would ensue. Shindy? If Roy Jenkins were to persist in carrying out the intention expressed in the first paragraph of this report, the govern-

ment might fall. If, last year the TUC and the Labour Left in Parliament intimated that they would vote against the government's bill to curb union monopoly powers, and compelled Harold Wilson to eat his words, all the more would they be ready today to challenge the government if it proposed policies that would *both* reduce the buying power of money wage rises *and* maintain the present record level of unemployment.

The only development likely to justify a substantial relaxation of restraints on home demand would be a world recession, probably spreading from the USA.

World recessions in the past, while checking the rise in the volume of UK exports, have also caused a larger fall in import than in export prices and have improved the UK's terms of trade. The UK has therefore been able to maintain its balance of trade, at current prices, with a smaller volume of exports, thus freeing resources for use at home.

Fall in Import Prices

But even a substantial improvement in the terms of trade would not give Roy Jenkins room for large reductions in personal or indirect taxes. A fall in import prices would, by itself, keep down the rise in prices of consumer goods and would stimulate consumption. In 1957-58, the last year of general world recession, personal UK consumption rose 2·6 per cent in real terms despite a 50 per cent rise in unemployment. Then again, a world recession would see easier credit and falling interest rates in the UK and elsewhere, and so raise consumption.

Part of the extra margin created by the fall in the volume of exports might therefore be taken up by increased stock accumulation and, after a time-lag, by increased investment, especially in houses.

I conclude that the Labour government's dilemma is that if it puts electioneering before economic realities it could win the election only to find itself back in the same position as in 1964 — a rapidly rising adverse balance of payments, and no alternative but to inaugurate a new and massive Stop/Go cycle. And there is every reason to suppose that a government which could allow this to occur would sooner or later be forced into another unplanned devaluation.

III
LIBERAL ECONOMICS

It is now 21 years since I first began to preach in this column the virtues of a market economy, the importance of consumer's choice, and the need to allow the controlling power of demand to become effective through a freely functioning price mechanism.

Twentyone years ago some readers of *Eastern Economist* dismissed my expositions as being as irrelevant as the doctrines of the anti-Darwinists in religion, while others, on the contrary, eagerly read them as the funniest humorous column in any Indian paper, leaving *Shankar's Weekly* far behind.

I am, alas, too far from India today to gauge the trend of economic opinion there, but as the years have slipped by here in the UK I have found myself less and less in an economic backwater and more and more in the mainstream of economic thought. One of the biggest factors in the economic education of British public opinion has been the Institute of Economic Affairs (2 Lord North St. London. S.W. 1) which, founded in 1957, has published a stream of academically authoritative, but popularly written, books and pamphlets, many of whose neoliberal principles have been adopted, without acknowledgement, by progressive Tories and Labour men of the right-centre.

Not so Affluent

Among the many reasons for this, the realisation that our "affluent society" is not so affluent after all has been fundamental.

When postwar governments began to offer electors more unemployment pay, universities, schools, hospitals, social security, and pensions, expenditure on these social benefits was at first limited to available revenues. Politicians of all parties failed to realise that they had initiated an auction to buy votes, and that social expenditure would rise skywards, thence into outer space and on to the moon. Costs have risen so staggeringly in all the industrialised democracies that the classical economics, which I expound, and which is concerned with the allocation of *scarce resources*, is now seen to be strictly relevant to our problems.

A good example of this is the latest Institute of Economic Affairs report *Policy for Poverty* (95 pages; price 15sh.), which, starting from the failure of the welfare state to abolish poverty in the UK, despite public expenditure of £8,700 million in 1969, recommends that help in cash should be concentrated on those in need by a reverse income-tax (RIT), i.e. whereby the state pays out money to those whose incomes are below a specified level — the reverse of normal income-tax whereby money is paid to the state when income exceeds a specified level.

The IEA report finds that the mass of welfare expenditure in the UK goes to people who could pay through insurance premiums, or in other ways, the full cost of the state benefit in cash or kind, if their taxes were reduced by an equal amount, whereas a minimum income guarantee (MIG) would concentrate state payments entirely on people with the lowest incomes and would guarantee the poverty-line minimum income to all. After deducting the additional payments to people with the lowest incomes under the MIG scheme, the report estimates that the reduction in state expenditure available for tax remission to families with incomes above the break-even levels would be about £1,800 million per annum, equivalent to more than 5 sh. on the standard rate of income-tax.

On balance, the report favours the MIG form of RIT. A fully selective procedure paying benefits only to people in poverty, and only to the extent that their incomes are below the poverty line, might completely eliminate poverty at a fraction of the cost of partial relief of poverty through the method of partial selectivity. Under the MIG plan, where the state pays £1 for every £1 by which private income falls short of the poverty-line income, the present "spillover" to the non-poor is eliminated.

The report acknowledges that any policy which effectively removes po-

verty by raising low incomes up to a minimum standard risks weakening self-help. But while MIG might reduce incentives to earn by the lowest paid workers — estimated at 2 to 3 per cent of the UK labour force — the higher cost of alternative policies is likely to entail high marginal rates, with consequent discouragement to additional effort, not among those with lowest incomes but among the general body of taxpayers whose productive potential is much higher. The report concludes that reverse income tax offers the possibility of major reductions in the amount of state expenditure and taxation and would help to replace numerous well-intentioned pressure groups for particular categories — old age pensioners' associations, the Disablement Income Group, the Child Poverty Action Group, etc., and many others, which cause social policy to comprise spasmodic, unco-ordinated, and often capricious concessions to persuasive pleading — by a single unambiguous criterion for social assistance.

Economic State of the US Union

H. R. VOHRA

WASHINGTON:

In his State of the Union message this year, President Nixon has accorded his battle against the rising cost of living the highest priority. For him it has been a continuing battle since his accession to office over twelve months ago. Victory, like a mirage, is still ahead of him.

In an election year, he would have wished it were within his grasp so that he could relax the fiscal controls and all the other impositions which collectively make up the economic bag of tools to beat inflation. He is not going to have it his way.

There are, however, some glimpses over which he can gloat. He has succeeded in bringing forth the most convincing evidence of a slow down in US economy. In the fourth quarter of 1969, the United States GNP grew in gross terms. But price rises completely neutralized the rise. The net result was a zero.

Confirmatory Evidence

There was other confirmatory evidence of this development. Industrial production has been steadily declining. Housing is at a low ebb and personal incomes have risen only slowly. Despite these developments prices rose in December at the annual rate of 6 per cent.

It is being predicted that this tendency will continue for months. Over the year the GNP is expected to rise by $53 billion which is approximately equal to the current GNP of India. But most of it would be absorbed by rising prices.

According to Mr Walter W. Heller, the former chairman of the Council of Economic Advisers, out of a total advance of 5·7 per cent in GNP for 1970, over 4 per cent will be pure inflation. Only 1½ per cent will be genuine gain.

All this is said to be exceedingly good news. The US economy will grow but only slowly. Prices will rise but at a declining pace. Unemployment will also rise but that is a part of the price. Interest rates might decline but very late in the year.

If this is the brighter side of the picture there is also a prediction for a possible bad development. The economy, some prophets say, could slip into a recession.

Difference of Degree

What is the difference between a managed slowdown and an unwanted recession? The difference is of degree. If a decline in the rate of growth brings the real GNP to a zero, it is a slowdown. But if it is a decline below the zero, it is a recession. This is also the kind of differences between other indices as, for instance, unemployment. If unemployment rises up to 6 or 7 per cent, it surely would mean recession.

I have heard of another interesting point which economic writers make. A slowdown is a slowdown if it lasts a few weeks. It becomes a recession if it drags into months. Most of the time, it would seem, the difference lies in the eye of the beholder.

For the time being what is happening in the US is not too different from the Indian experience a few years ago when rise in prices and economic decline went hand in hand. Factors governing the two similar situations, however, were very different.

The combination of recession and continued rise in prices puzzles some people here, Congressman Albert the other day called it an "economic paradox," that there should be "unprecedented inflation coupled with an economic downturn." Economists explain the "paradox" very simply as a period preceding the downturn in prices.

In this period the seller meets reduced demand and increased costs by exercising his option of raising prices. Prices go up faster at the beginning of a downturn than during inflation. But as demand further declines, the seller's option loses validity. Inflationary pressures subside.

Forcing down prices is a long painful and a delicate process which is justified only on the ground that the alternative is even more painful.

The First National City Bank analyses the phenomenon. It says that in a period of monetary restraint "such efforts to push up wages and prices are doomed to eventual frustration."

Profit Squeezed

The reason is that neither wage nor price increases can create new money growth in the economy. The businesses are unable to raise prices by the full amount of the rise in labour or other costs without losing sales. Profit margins are squeezed. Resistance to wage demands stiffens. Burdened by mounting overheads, companies begin to cut prices to increase volume.

We are witnessing the beginning of this sequence in the US which, hopefully, will end in a reduction in prices to increase the volume of trade.

What comes out strongly in all these prophesies and studies is the certainty that this is going to be a miserably slow and difficult year. Whether it ends in the defeat of inflation or the onslaught of recession is an unanswered question.

President Nixon has blamed unbalanced budgets of the Democratic regimes for the current US economic malaise. This is a typically Republican approach to the recurring problem.

"In the decades of the sixties, the federal government spent, he says, $57 billion more than it took in taxes. In that same decade the American people paid the bill for that deficit in price increases which raised the cost of living for the average family by $200 per month."

The decade to which he alludes, began with the end of the Eisenhower period and the installation of President Kennedy. The political barb was not lost on his Democratic listeners in Congress.

President Nixon promises a second balanced budget. He has given no clue

of any additional measure. He seems to rely on the growing effects of tight money, high interest and a balanced budget which would mean rejecting many pending domestic programmes and forgoing foreign commitments.

Economists who expect that recession will be avoided count on these factors.

(a) The new tax bill and new social security benefits will give consumers a transfusion of $ 13 billion, convertible into more purchasing power.

(b) Businesses wanting to expand on the assumption of continued inflation plan to spend $ 7 billion on new plant.

(c) The Federal Reserve would allow the money stock to grow to avoid ruination of the housing industry.

For official thinking for this year, one must turn to Mr Paul W. McCracken, President's Economic Adviser. Answering a question, if he foresaw a recession ahead, he said.

"The statistical probability of one is greater than zero."

He does not yet see any recession but he does not deny that the country will have "some of the pains that we associate with recession. some real disappointments in profits, possibly some rise in unemployment."

Sensing the Recession

He counts on his ability to sense recession before it comes. He says: "If the pressures of profit get too severe then we could see some stern pruning of costs that would have a further substantial effect on employment and possibly capital outlays. If the adjustment holds within tolerable limits, as I expect, then we can accomplish the deceleration without anything that would be called a recession."

He does not promise that inflation will end this year if by inflation is meant an end to price increases. For him the important point is to make progress in slowing the rate of price increases. This, he claims, the Nixon policies can accomplish.

He repeats the story once told by Senator Bennett of Utah. "If you have a runaway team of horses, you don't try to stop them dead in their tracks. If you did you would have a wreck." And since the horses of inflation have been running pretty fast, the slowing job will not be over by the end of the year. It would overflow into 1971.

Mr McCracken has explained his philosophy in these interestingwords:

"If we wanted to take the hair-shirt approach and say we are willing to have a first class depression, if necessary, then we would stabilize the price level fast. The trouble is that would also severely damage the economy. The show must still go on while we cool off the inflation."

While the cooling off is being induced, there is already discussion within the administration and its economic advisers as to the appropriate time to make a change or to shift gears. In other words, has the tough monetary policy served its purpose?

Official economists are looking for signs whether demand is really beginning to slow up. They are watching for the latest figures of retail sales which show that consumer buying has become more restrained. The hope is that inventories are now beginning to be cut back. This would affect production schedules. Then will be the time to look into figures of hours worked, personal incomes and total employment.

Right Occasion

What would be the right time for changing the policy? "The right time will probably seem premature at the time," says Mr McCracken. His fear is that if you wait until you are completely sure you have turned the corner, you have probably overstayed on restraint. This observation, more than anything else, brings out the delicate and sensitive nature of the judgment that goes into this operation. Too much too soon is as damaging as too little too late.

Computers are of little avail in determining the right degree of restraint at a particular time. Economic activity is the sum total of reactions and decisions of millions of people which cannot be converted into a mathematical formula to be fed into a computor.

We continue to draw on fallible human understanding which, even when trained, must finally rely on a hunch. Since a hunch is seldom one hundred per cent right, the conduct of economic affairs often falls short of perfection.

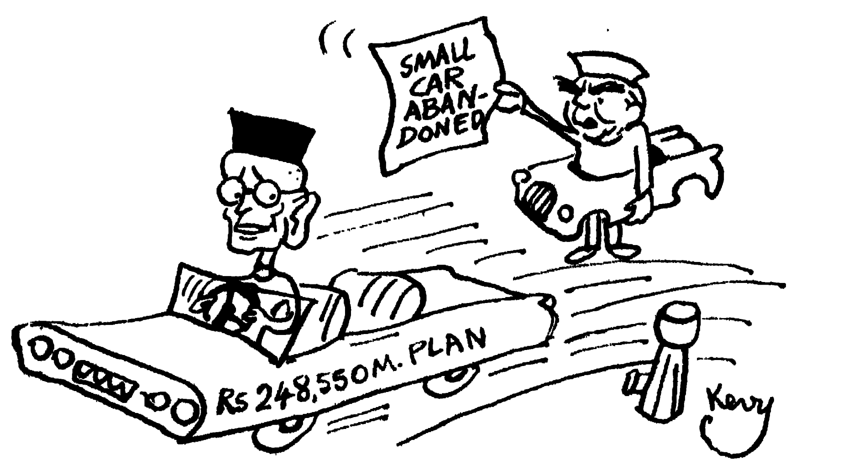
One of the persons on whom the burden of judgment (or hunch) will fall is Dr. Arthur F. Burns, the newly appointed Chairman of the Federal Reserve Board. He recently told the Senate Committee on Banking that the policy being pursued by the Federal Reserve is sound at the present time. After the budget situation is clear, the Board would reconsider it. He favoured continuation of restrictive monetary policy largely to establish the determination of government to curb price increases. But for this, he would favour easing credit conditions now.

Damage to Economy

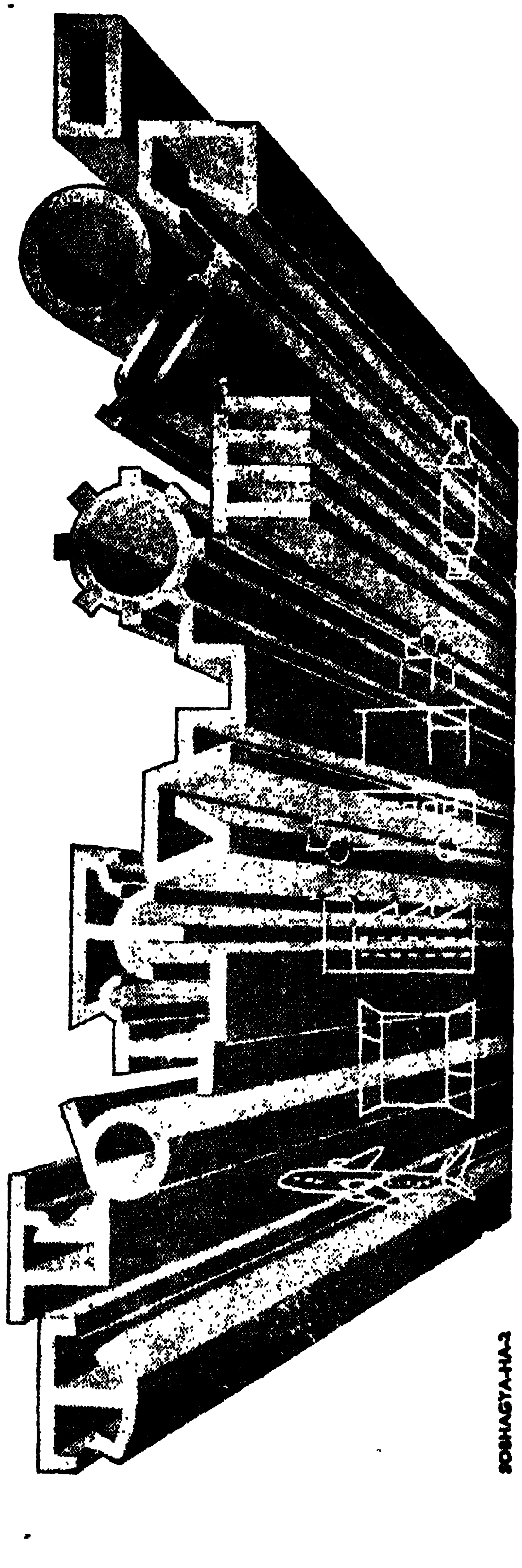
He is very alive to the possibility that a restrictive monetary policy, if pursued very long, could also damage the country's economy. But being modest and human, he too claims no special knowledge by which he could be sure that the brakes being applied to the economy have not lasted too long. All he says is "I do not think they have. But I cannot say I am right and you are wrong."

One economist, Prof. Milton Friedman of the University of Chicago, a distinguished student of Dr Burns, however predicts that as a result of the actions of the Board in 1969, this year will see a recession of at least the proportions of the dip of 1960-61.

We thus squarely face the opposing views of a teacher and a student, each in his own sphere equally responsible and, one presumes, equally knowledgeable. Mr Friedman holds that the Federal Board has contributed to instability in economy in which inflation and recession alternate. He could, if he wanted, draw upon the US experience of at least nine booms since 1919, each ending in a depression or recession after frantic federal steps to restrain credits.



Is this socialism ?



Trade Winds

BANK'S TAKEOVER HELD INVALID

THE SUPREME Court, by a majority of 10 to one, struck down as invalid the entire law nationalising the 14 commercial banks, on, February 10. The court, in its judgment delivered by Mr. Justice J.C. Shah, said the Act constituted 'hostile discrimination' against the 14 banks while other Indian and foreign banks could engage in banking business. The court also held that the Act violated the constitutional guarantee of compensation and the amounts to be given under the Act could not be fair compensation. The court, however, did not question the competence of Parliament to legislate for the nationalisation of banks. Allowing the two writ petitions challenging the constitutional validity of the bank nationalisation law, Mr Justice Shah also declared as "unauthorised" all action taken, or deemed to be taken, in exercise of the powers under the impugned Act. On the question of ordinance making powers which had been assailed the petitition challenging the validity of the Ordinance and Act, the court said : "We need express no opinion in this case so far as the question of jurisdiction of the court to examine whether conditions relating to satisfaction by the President was fulfilled or not." The ordinance had been repealed by the Act and the question of its validity was academic, Mr Shah pointed out. The court has found fault with the scheme of bonds to compensate nationalised banks. The bonds substantially reduced the present value of what the Statute decided to give as compensation, he said. The court was of the view that in the valuation of the undertaking, the compensation scheme in the Act excluded important items of assets. Further, the compensation scheme adopted principles which were either "irrelevant" or "not recognised." In upholding Parliament's competence to legislate nationalisation of banks, the court said there was no evidence that the nationalised banks held any assets for any non-banking business. Hence, the question of legislation on these banks was not in the realm of the state legislature as contended by the petitioners.

FOURTH PLAN

The fourth Plan as recently revised by the Planning Commission, was approved by the union cabinet at a recent meeting. The Plan proposes a total outlay of Rs 15,879 crores in the public sector — two-thirds in the central and one-third in the state spheres. This implies a 10 per cent rise in public outlays, partly, offset by a cut of equal proportions in the assumptions made about private investment. The Plan will now go to the National Development Council for adoption. The meeting is likely to be held in March by when the 1970-71 budget would already have been presented.

COMMITTEE ON FORWARD TRADING

The union government has appointed a 4-member committee to go into the question of forward trading in securities. Forward trading in securities was prohibited by the central government with a view to arresting the undesirable speculation in securities that had then developed. Since then a number of representations have been received by the central government, some arguing against the prohibition and others for its continuance. With a view to assisting the government to assess the requirements of the situation, it has appointed a committee consisting of Mr J.J. Anjaria as Chairman and Mr C. P. Mukherjee, Mr P.S. Nadkarni and Mr P.D. Kasbekar as members. The terms of reference of the committee are :

(*i*) to assess the need for forward trading in securities in the context of the conditions that have emerged under the planned economic development of the country; (*ii*) to suggest, if resumption of forward trading in securities is to be permitted, such safeguards as would ensure that its undesirable features are obviated; and (*iii*) to make any other recommendations with a view to realising the objectives of the Securities Contracts (Regulation) Act, 1956 (42 of 1956). The Committee will submit its report to the central government expeditiously and in any case in not more than two months.

IMPORT OF TRACTORS

An agreement was signed recently between the State Trading Corporation of India and Messrs VO Tractoro-Export, Moscow, for the import of 1,500 Soviet tractors valued at about Rs 2 crores. The shipment is expected to commence by the middle of this year and will be completed by the end of the year. The tractors will be distributed through the Agro-Industries Corporation in the various states.

JUMBOS FOR AIR-INDIA

Delivery of the first two Boeing 747 jets to Air-India is expected in March and April 1971. The third Jumbo is expected in March 1972. In Washington recently, the Export-Import Bank of the United States signed a loan agreement with Air-India for $ 18 million to finance the purchase of a Boeing 747 jet airliner. This is the third such loan to Air-India to finance Boeing 747 jets. Exim-bank Chairman Mr Henry Kearns, signed the loan document on behalf of the Bank, while Air-India chairman, Mr J.R.D. Tata signed for the airline. Mr S. Jaganathan signed on behalf of the Indian government, the guarantor of the loan. The contract price for the transaction is about $ 33 million. In addition to the Exim-Bank a group of US commercial banks will lend $ 3 million. The Boeing Company will lend $ 2 million. Another foreign bank will participate to the extent of $ 10 million. An Exim-Bank loan of $ 25 million was authorised in 1968 to help finance the purchase of the first two Boeing 747 Jets scheduled for delivery to Air-India early next year.

SUGAR AND CANE PRICES

The need for establishing a just and fair link between the price for sugarcane and the price realised by the sugar factories from the sale of their free sale sugar quota was stressed by Mr K. P. Mathrani, Secretary, Department of Food, and Chairman of the Development Council for Sugar Industry, at its meeting held recently. He pointed out that the success of the policy of partial de-control had been demonstrated by the facts that sugar production, which was only 2·2 million tonnes in 1967-68, reached 3·56 million tonnes in 1968-69 and was expected to exceed four million tonnes in the current year and the area under sugarcane increased by 20 per cent in 1968-69 and was expected to increase by 14 per cent more in the current year as compared to last year. While the improvement in the production of cane and, therefore, of sugar was mainly due to the attractive prices received by the growers during the last two years, during the current season, sugar factories had not started paying the grower more reasonable prices. Mr Mathrani pointed out that lower price for cane might result in reversing the upward trend in the production of cane as well as sugar. It was urgently necessary for sugar factories to establish a long-term basis for supply of cane and for the participation of the growers in the fortunes of the industry. Unless this was done, he added, the country would find it difficult to get out of the cyclical movement in the production of sugar. While scarcity had to be avoided, surplus was also creating problems. Gur prices had fallen and the price of cane for the manufacture of gur had also fallen. More and more sugarcane will therefore have to be diverted to sugar factories. Government had anticipated this situation and had granted a rebate of Rs 8 per quintal on sugar produced in excess of 105 per cent of the production during the 1968-69 season. The Government of Uttar Pradesh has also granted a rebate of 25 paise per quintal in the purchase tax on all cane crushed in excess of 105 per cent of the last year's total cane crushed. Mr Mathrani expressed the hope that these incentives would enable the factories to crush all the available cane. He also called for the speedy finalisation of the arrangements for exporting our total export entitlement for this year which is about 3,20,000 tonnes. The main effort in this direction had to be taken by the industry, though the government would give it all the required assistance.

VANASPATI PRICES

Prices of vanaspati have been increased by 20 paise per kg. in all zones having regard to the prevailing prices of groundnut oil during the last six weeks. The revised prices, which take effect from February 8, 1970, have been notified by the government under the Vegetable Oil Products Control Order, 1947, separate prices being fixed for sale by producers, wholesalers and retailers. It is proposed to maintain these prices till March 1970. The maximum retail prices of vanaspati in the different pack sizes, and when sold loose, exclusive of sales tax and other local taxes, will be as under :—

Zone	16·5 kg. (Rs)	4·0 kg. (Rs)	2·0 kg. (Rs)	Loose per kg. (Rs)
North	83·45	21·94	11·43	5·06
South	83·20	21·88	11·40	5·04
East	83·84	22·04	11·47	5·08
West	83·91	22·05	11·48	5·09

REDUCTION IN CRUDE PRICES

The Chief Representative of Esso, Mr A.G. Neff, has intimated to Dr Triguna Sen, Minister for Petroleum, Chemicals, Mines & Metals, a reduction of 6 cents per barrel in the price of crude imported by Esso Refinery from February 1, 1970, without any conditions. The new price is $ 1·29 per barrel. The six cents reduction is in line with the six cents reduction offered by Burmah-Shell Refinery from February 1, 1970. Although the prices are quoted on the basis of per barrel, release of foreign exchange by the government to oil companies are in terms of metric tons. The price of one tonne of crude imported by Esso would now be Rs 70·71 as against the price of Rs 71·41 for the crude imported by the Burmah-Shell Refinery.

CRUDE OIL IN 1969

According to the figures now available, 17·51 million tonnes of crude oil was refined in this country during 1969.

Of this 9·53 million tonnes, i.e., 54·4 per cent, was refined in the public sector and the remaining, 7·98 million tonnes in the private

sector. Refineries in the public sector refined for the first time more crude than those in the private sector. Last year, of the total 16·13 million tonnes of crude processed, the public sector refineries had refined only 7·74 million tonnes. Of the additional 1·38 million tonnes of crude processed during 1969, Barauni (Bihar) and Koyali (Gujarat) refineries between themselves refined 1·05 million tonnes. Except the refineries at Barauni, Koyali and Madras, the rest processed smaller quantities of oil during 1969 as compared to 1968. The reduction in the refineries at Digboi, Gauhati and Cochin was, however, only of a marginal nature. Thus, the total increase during 1969 was contributed by Barauni, Koyali and Madras refineries. Even if no cuts had been made during the last seven months of 1969 in the foreign exchange allocation to the three private sector coastal refineries, i.e. Burmah-Shell, Esso and Caltex, the public sector refineries would have still retained the lead. Of the crude oil processed during 1969, the percentage of indigenous crude was 38 as compared to 35 last year. Quantitywise, 1·02 million tonnes of indigenous crude was additionally processed during 1969, and the additional crude oil imports during the same period were 0·36 million tonnes.

STAPLE FIBRE AND PULP

Consequent on the removal of items viscose filament yarn and viscose staple fibre including polynosic fibre from the rejection list, only integrated proposals involving the production of both staple fibre and pulp are proposed to be considered by the union government on the condition that production of pulp would be organised within two years of the staple fibre capacity going into operation.

TRADE WITH MALAYSIA

Indian and Malaysian officials recently examined in detail measures for trade expansion and increased co-operation in the economic and technical fields. They have also made considerable progress in drafting a trade agreement on which further discussions will be held at a later stage. The two delegations agreed to co-operate in evolving plans for greater regional trade. They recognised the need for the countries in the region to direct their efforts to speedy economic development. Meanwhile, a separate meeting was held on future operations in Malaysia of Indian banks which were nationalised recently. Under Malaysian law, foreign government-owned banks cannot function here, but Indian banks were given time to evolve suitable arrangements, so that they could carry on their business in Malaysia.

BOILERS FOR MALAYSIA

High Pressure Boiler Plant of Bharat Heavy Electricals Ltd at Tiruchi has won a contract in Malaysia for manufacture and erection of two 60 MW boilers for installation at Tunku Ja'afar Power Station at Port Dixon. The total value of the contract exceeds Rs 2·25 crores. The first 60 MW boiler is to be commissioned by November 1971. A team of BHEL engineers were in London in November 1969 to convince British Consulting Engineers for the project about the technical suitability of the boiler equipment offered by them. The BHEL will depute their experts to erect and commission the boilers at Port Dixon in Malaysia. Apart from this being one of the largest export orders for power equipment from this country, this is the first order secured for the export of power station boilers.

CASHEW IMPORTS FROM TANZANIA

The three-month old stalemate in cashew imports from Tanzania which rendered most of Kerala's cashew processing factories idle has ended. The dispute between Indian importers and exporters of raw cashewnut from that country has just been settled through negotiations between Tanzania's National Agricultural Production Board and a delegation of Indian importers. Under terms of the agreement Tanzanian exporters will give compensation for all in quality beyond 13 per cent. In view of this agreement it is expected that a regular flow of cashewnuts from Tanzania will start from now. Tanzania is India's largest supplier of African raw nuts.

WEATHER FORECASTING EQUIPMENT

This country will receive from the Netherlands and the United States essential telecommunication equipment, including a computor, for collecting and transmitting weather forecasting data at a high speed from the Regional Meteorological Centre to be set up at Delhi under the World Weather Watch programme of the World Meteorological Organisation. The Netherlands will give a computor worth Rs 90 lakhs to India. It will be in position by the end of 1972. The USA will supply equipment for transmission of fascimile charts worth Rs 7 lakhs by the end of 1971. All equipment from the two countries will be received by India under the voluntary assistance programme of the World Meteorological Organisation, as part of the implementation of the World Weather Watch programme. The equipment to be received under the programme will help to organise high-speed analysis of the vast amount of data that will pour through the regional telecommunication hub by fast telecommunication channels and to prepare prognostic charts for the use of forecasting offices in India and abroad. The Indian Meteorological Department entered into an arrangement for a computor to be installed for high-speed processing of weather forecasting data.

BARCELONA FAIR

The union government has decided to participate in the Barcelona International Samples Fair to be held at Barcelona (Spain) from June 1 to 15,1970. India last participated in this Fair in 1967.

Export from this country to Spain have increased by more than 50 per cent in the first quarter of 1969. With a view to maintaining and stimulating this upward trend, this fair is expected to afford an ideal opportunity to publicise growing industrial potential and capacity to increase from this country exports to Spain. As the fair attracts large number of businessmen and trade organisations from the adjoining regions, this country will also have opportunity to popularise her products in the Mediterranean countries of southern Europe and north Africa. Indian manufacturers and exporters intending to participate in this fair have been advised to forward their list of exhibits to the Director of Exhibition in the Ministry of Foreign Trade, through the concerned Export Promotion Council or Commodity Board before February 25, 1970.

PUBLIC SECTOR HOTELS

The two public sector hotels, Ashoka Hotels Ltd. and Janpath Hotels Ltd managing four hotels in Delhi Ashoka, Janpath, Ranjit and Lodhi will be amalgamated with the India Tourism Development Corporation from March 28, according to a notification issued by the Company Law Board under the Companies Act. The amalgamation, when effective, will bring in a unified management of public sector hotels and give them the benefit of large-scale management. Common management will help pool the resources of the four public sector hotels.

BANK LOANS FOR AGRICULTURE

A study of the figures made available by Bank of Baroda shows that the accounts of advances to the road transport operators shot up by more than nine times than in the previous six months ending June, 1969. A similar rise was noted in accounts of advances to small-scale industries, the number of accounts increasing from 2,793 at the end of June to 4,377 at the end of December 1969. Advances to farmers in the agricultural sector rose from 7,804 accounts till the end of June to 19,704 in December 1969.

AERIAL SPRAY OF UREA

It has been estimated that an additional profit of Rs 114·52 per hectare of unirrigated paddy can be earned by aerial spray of urea solution. This was demonstrated by trials recently conducted over 4,800 hectares in the Bilaspur and Raipur districts of Madhya Pradesh. The lack of adequate moisture in the crucial stages of growth of paddy in rain-fed areas makes the top dressing of urea unprofitable. This difficulty is overcome by spraying appropriately strong solution of area on paddy leaves. But the precise economics of foliar application remained to be worked out and that is why the trials were undertaken.

FERTILISER PROMOTION COUNCIL

A Fertiliser Promotion Council will begin functioning in April to boost the consumption of plant nutrients which has during the current financial year, shown tendencies to stagnate if not has actually fallen. The council's promotional work will reinforce the Rs 2-crore National Demonstration Programme covering 100 districts spread throughout the country. The programme, which the Indian Council of Agricultural Research implements is an advance on extension work in that a scientist conducts the demonstration. The 100 districts are representative of all types of cultivation done in the country. These are from both irrigated and unirrigated areas The council is expected to be an autonomous and joint venture of the government's representatives of fertiliser manufacturers, of the pesticides industry and of the seeds industry. A governing board, which will be constituted under the council, will have similar representation except that of the seeds industry. The council will have a budget of Rs 7 crores for four years, beginning from 1970-71. A group of specialists will man its headquarters while the 100 districts will be divided and put under the charge of eight or 10 regional offices At the regional level, the accent will be on training on the use of fertilisers.

CONTAINER SERVICES

The door to door container service, first introduced by the railways four years ago, is to be further expanded. The quantum of traffic has increased from a monthly loading of 130 containers in 1966 to 2200 containers. It is proposed to double this traffic by the beginning of 1971-72, mainly by consolidating traffic on the routes already covered. The container service is expected to be introduced between Calcutta and Madras by the end of March and between Calcutta and Bombay a little later. The service has already been introduced between Bombay and Ahmedabad; Bombay and New Delhi; Madras and Bangalore; Howrah and New Delhi; Bombay and Madras; Bombay and Secunderabad and Bombay and Bangalore. Some of the commodities which are moving in containers are: dairy products, soap, lubricating oils, tea, coffee, cigarettes, beer & whisky, biscuits, radios, cotton piece goods, nylon yarn, dry batteries, paints, rubber tyres, electric tubes and bulbs and shoes. Under the service, the railways lift commodities from the premises of firms in containers which are loaded and sealed by consigners themselves. Sealed containers are transported in railway's own special road vehicles to rail heads where containers are

mechanically transferred to specially designed rail wagons. The wagons loaded with containers are hauled by fast express goods trains. At the destination, the containers are again transferred mechanically from special wagons to special road units and delivered to consignees at their godowns. The containers in use on the railways are of 4.5-tonne pay-load and 5-tonne pay-load.

U. S. BUDGET

President Nixon has proposed large cuts in the US defence spending and a reduced space budget in the next financial year beginning July 1. Defence takes the brunt of cut-backs in the federal budget of $200,771 million proposed by the President. The President will propose slashing of defence spending by $ 5,849 million. The defence estimates total $ 73,583 million or about one-third of all government expenditure. In 1968, the US government spent over half its income on defence. The proposals are contained in the President's annual economic report which was released recently by the White House. The space programme will operate on its lowest budget since 1963, with an allocation of $ 3,400 million, a cut of about $ 450 million compared with the current financial year

PUBLIC RELATIONS CONFERENCE

The Second All-India Public Relations Conference will be held at Madras on February 16 to 18, 1970 under the auspices of the Public Relations Society of India. Leading industrialists and professional managers from the public and private sectors, ministers and senior government officials, eminent personalities from educational, social and cultural fields—from abroad as well—are likely to participate in the conference. Over 250 delegates are expected to participate in the conference. The theme of the Conference is *The Role of Public Relations in Modern Management*."

MINERAL AWARDS

The Ministry of Petroleum & Chemicals and Mines & Metals has decided to grant six national mineral awards in cash comprising one of Rs 5,000 and five of Rs 3,000 each for outstanding contribution in the mineral sciences including geological and allied disciplines, geophysical prospecting, exploration, beneficiation, mineral chemistry, mineral physics, mineral economics, mining, research, education, etc. The awards would be made at a function to be held under the joint auspices of the Mining, Geological and Metallurgical Institute of India and Geological, Mining and Metallurgical Society of India. Nominations for the awards have to be sponsored by the various organisations, institutions or scientific bodies concerned and must be based upon outstanding work of the individuals concerned during the last three years.

HYDROGEN CYANIDE MANUFACTURE

The union government has invited applications for a detailed composite scheme for the manufacture of hydrogen cyanide with surplus available for sale to other parties for the manufacture of cyanide salts and other cyanide based chemicals; methyl methacrylate (about 5,000 tons); polymethyl methacrylate to the extent of 50 per cent of the production of the monomer, and conversion of the resin into rods and moulding powder. The units in this composite scheme should be located adjacent to plants manufacturing ammonia and having adequate quantities of ammonia available for the manufacture of the above products. Proposals should be complete and should give details about capital investment, estimated requirements of foreign currency and how it is proposed to raise rupee and foreign exchange resources; terms and conditions of obtaining technical know-how; documentary evidence that ammonia is available from ammonia plants in the quantity required and at a reasonable price; and, possibility of export of products manufactured.

Proposals complete with all information should reach the government by February 28, 1970 and should be accompanied by an appropriate application in the prescribed form for the grant of an industrial licence.

MR S. MOOLGAOKAR

Mr S. Moolgaokar, Vice Chairman of Tata Industries was elected as an Honorary Life Member of the Institution of Engineers (India). The award, read out at the annual session of the Institution in Calcutta when Mrs Gandhi was the Chief Guest, cited Mr. Moolgaokar's "high eminence in engineering." This award is the highest honour that a national body can give to an engineer. The charter of the Institution, which celebrates its golden jubilee this year, rules that the number of honorary life members should at no time exceed 15. They include Dr K.L. Rao, union Minister for Irrigation and Power, Dr Triguna Sen, union Minister for Petroleum and Chemicals, Sir Jehangir Ghandy, a Director of Tata Sons, Dr A. N. Khosla and Dr M.S. Thacker. Sir M. Visvesvaraya was the first to be so honoured. Dr Homi J. Bhabha was another eminent member of this select body.

Company Affairs

VAZIR SULTAN TOBACCO

Mr A.M. Lal, Chairman, the Vazir Sultan Tobacco Co. Ltd, dwelt at length on the history of the company while speaking at the annual general meeting held recently. He indicated that from a family firm in the twenties producing 'Charminar' cigarettes, it was registered as a public limited company in 1930 following popular appeal of this brand. Soon the distribution of 'Charminar' was reorganised so that it became a national brand smoked by all sections of society throughout the country. To meet this demand Vazir Sultan became the single largest cigarette manufacturing unit in south-east Asia. Mr Lal added that the participation of workers in improving production in the company has been a significant development. The company evolved a comprehensive bonus plan which has been modified over the years. The scheme incorporates a productivity payments index for different levels of production so that the workers are given advances each month against the production index and final calculations are made at the time of paying annual bonus. Mr Lal pointed out that this year the bonus amounted to over five months basic wages and it has been paid not only to machine operators but also to all employees in the plant and office. The scheme also provides a sense of dignity and involvement in the affairs of the company. Mr Lal stated that the company has made specific efforts in the field of import substitution by starting a number of workshops in Hyderabad and outside from where the factory receives spare parts, components for balancing equipment and some of the printing and packaging requirements. The technical know-how and other assistance has helped these small manufacturers to branch out into other lines.

The chairman indicated that during the year sales of the company increased to Rs 32·78 crores and profit after tax was around Rs 82 lakhs. He added however that cost of materials and overheads has gradually increased but the prices of cigarettes cannot be increased because of consumers resistance. In order to ensure sufficient funds for replacement of assets and purchase of raw materials the company has transferred Rs 8·56 lakhs to fixed asset and stock replacement reserve. A final dividend of Rs 1·25 per ordinary share bringing the total dividend for the year to Rs 2·25 per ordinary share has been announced which has been considered quite satisfactory.

CENTURY

The Century Spinning and Manufacturing Co. Ltd is reported to have fared well in 1969. Sales have gone up by about 6 to 7 per cent during the year. The company is at present busy finalising its cement project in Madhya Pradesh and expects to place orders for machinery and equipment shortly. The directors' proposal to issue bonus shares in the proportion of 1:1 by capitalising a sum of Rs 3·54 crores from the general reserve was approved by shareholders at the extra-ordinary general meeting of the company held recently. The company is at present run by the board of directors.

MADRAS OXYGEN

Madras Oxygen & Acetylene Co. Ltd will enter the capital market shortly with a public issue of Rs 10 lakhs in 10,000 equity shares of Rs 100 each at par. The proceeds of the issue will be utilised to set up an oxygen plant near Coimbatore. The company's authorised capital is Rs 35 lakhs. It is making a capital issue of Rs 14·14 lakhs. Of this, shares worth Rs 1·64 lakhs are reserved for directors and their friends. The Tamil Nadu Industrial Investment Corporation has agreed to subscribe for shares of the value of Rs 2·50 lakhs. The balance of Rs 10 lakhs will be offered for the public subscription. The entire public issue is underwritten. The company's project is estimated to cost Rs 41 lakhs and will be financed by the issued capital, loan and deferred payment arrangements. The plant is expected to go on stream in the second half of 1970. The plant's capacity will be 1·08 million cubic metres of oxygen and 216,000 cubic metres of dissolved acetylene per annum. Oxygen and acetylene are in good demand in south India. The directors, therefore, expect that the company will have no problems about marketing its products. The main raw material required will be calcium carbide, which is easily available in south India.

J.K. SYNTHETICS

The directors of J.K. Synthetics Ltd have applied for an expansion of its nylon plant up to 3,500 tonnes per annum, which will entail foreign exchange expenditure of Rs 65 lakhs for imported equipment. The matter is under the government's consideration and the company expects to get a favourable consideration soon. The company feels that the expansion is necessary to achieve an economic level. The research conducted by the company for producing acrylic fibre has yielded fruitful results, which will be of help in setting up the major plant for manufacturing 4,000 tonnes of acrylic fibre per annum. Due to a series of strikes in Italy the shipment of plant and equipment for the nylon staple fibre project has been delayed. The plant is expected to go on steam by the end of 1970 and reach optimum production by mid-1971. The deliveries of plant and equipment for the nylon tyre cord project has also been delayed. Deliveries are expected to be completed by December, 1970 and plant commissioned by April 1971. The rated capacity is expected to be reached by the end of June, 1971. Meanwhile, the company has started production of nylon tyre cord and has acquired about 400 acres of land in Rajasthan for its proposed cement project. The company's earlier proposal to issue 40,000 (9·5 per cent) cumulative redeemable 'B' preference shares of Rs 100 each at par was not carried out. Commensurate with the financial requirements of the company, it is now proposed to issue preference shares of Rs one crore in the near future. The consent of the Controller of Capital Issues for its bonus issue in the ratio of one for two announced in September 1969 has been received. The company's working during the year has resulted in a higher net profit of Rs 159·51 lakhs, after providing Rs 138·39 lakhs for depreciation and Rs 105·06 lakhs for development rebate reserve. Sales have risen to Rs 20·13 crores from Rs 11·67 crores.

PRECISION BEARINGS

The directors of Precision Bearings of India Ltd have revealed that during the year ended August, 31, 1969, the company's sales went up to Rs 1·37 crores against Rs 96 lakhs during the previous year. The gross profit has jumped up from Rs 11·76 lakhs to Rs 22·29 lakhs. After providing Rs 10·49 lakhs for depreciation the net profit is Rs 11·80 lakhs. The entire profit is adjusted against accumulated loss which now stands reduced to Rs 28·93 lakhs. After the close of the year the company's production, sales and profitability are stated to have improved further and the directors are confident of achieving further growth in the coming years. The company has a scheme for expansion of its range of manufacturing activity into sophisticated bearings which might improve its profitability further. The first phase of this expansion is to be completed within two years from the receipt of the letter of intent. This scheme will involve a capital expenditure of Rs 75 lakhs. On completion it would almost double the production capacity. The expansion cost is to be met from internal resources and borrowings.

PANYAM CEMENTS

Panyam Cements and Mineral Industries Ltd has reported encouraging results for the year ended August 1969. Production of clinker has risen to 288,000 tonnes from 174,000 tonnes and of cement to 295,000 tonnes from 167,000 tonnes. Cement despatches totalled 289,000 tonnes against 168,000 tonnes in the previous year. Sales have gone up to Rs 3·57 crores from Rs 1·93 crores. The company has made a net profit of Rs 49·49 lakhs after meeting all working expenses and after providing Rs 44·82 for depreciation. With adjustments, there remains a sum of Rs 56 65 lakhs out of which Rs 28 lakhs has been provided for reserve for development rebate. Rs 6·43 lakhs for expansion reserve and Rs 2 50 lakhs for general reserve. The directors have recommended an equity dividend of 12 per cent absorbing Rs 14·97 lakhs. The third mill and packing plant were put into operation by November 1968 and January 1969. The primary crusher has been ordered and is expected to be received shortly.

SYNDICATE BANK

Deposits of Syndicate Bank during 1969 have risen to Rs 144·32 crores from Rs 112·19 crores in 1968 and advances to Rs 105·15 crores from Rs 70 61 crores. The number of deposit accounts has risen to 14·40 lakhs from 11·80 lakhs and the number of borrowing accounts to 2·98 lakhs from 2·23 lakhs. In the second half of 1969, the bank's advances to agriculture have risen from Rs 9·04 crores to Rs 12·55 crores, to small-scale industries from Rs 10·97 crores to Rs 13·91 crores, to transport operators from Rs 2·27 crores to Rs 4·42 crores, to retail trade from Rs 6·11 crores to Rs 7·15 crores, while the assistance to students has risen from Rs 26·49 lakhs to Rs 53·33 lakhs. As at the end of 1969, out of the total advances of Rs 105·15 crores, advances to priority sectors amounted to Rs 37·30 crores. The bank opened during 1969, 101 branches bringing the total to 355.

STATE BANK OF HYDERABAD

The State Bank of Hyderabad has made a net profit of Rs 24·30 lakhs for the year ending 1969 as against Rs 20·10 lakhs for the previous year. The directors have proposed to maintain equity dividend at 6 per cent. After bringing in a sum of Rs 0·05 lakhs, the amount available for distribution amounts to Rs 24·35 lakhs. The directors have provided Rs 11·00 lakhs for payment of bonus to staff and have transferred Rs 4·87 lakhs to the reserve fund and Rs 0·40 lakhs to staff welfare fund. The transfer to pension fund amounts to Rs 5·00 lakhs. The bank's deposits increased to Rs 58·49 crores at the end of 1969 from Rs 54·03 crores at the end of the previous year, recording a rise of Rs 4·46 crores. Its advances rose to Rs 52·36 crores at the end of 1969 from Rs

38·07 crores at the end of the previous year registering a rise of 37·54 per cent. The bank's financial assistance to priority sectors such as small-scale industries, agriculture and exports recorded a remarkable increase. Advances to small-scale industries increased by 103 per cent; advances to agriculture by 847 per cent and those for exports by 421.57 per cent. The bank also introduced several new schemes to meet the different types of credit needs of small businessman and self-employed professions. The total amount advanced under this scheme is to the extent of Rs 57·34 lakhs.

IMPERIAL TOBACCO

Four brands of cigarettes manufactured by the Imperial Tobacco Co of India Ltd, have received awards for excellence at the Monde Selection (world selection) Brussels (Belgium) for Tobacco and Tobacco-made Products 1969. The awards, which are made at the world selection every three years for overall excellence of the products were presented at a ceremony in Brussels on January 30.

LICENCES AND LETTERS OF INTENT

The following licences and letters of intent were issued under the Industries (Development and Regulation) Act, 1951, during the four weeks ended October 25, 1969. The list contains the names and addresses of the licensees, articles of manufacture, types of licences—New Undertaking (NU); New Article (NA); Substantial Expansion (SE); Carry on Business (COB) Shifting—and annual installed capacity.

Licences Issued

Metallurgical Industries (Ferrous)

M/s Hindustan Easterns Pvt. Ltd, 1/14, Jhandewalan Extension, New Delhi-55 : Shifting from Faridabad (Haryana) to Nagpur (Maharashtra).

Fuels

M/s East Searsole Colliery, 26-A, Fern Road, Calcutta-19. (West Bengal)— Coal 17,000 tonnes p.a. (NU) M/s Indian Oil Corpn. Ltd, (Marketing Division), 254/C, Dr Annie Besant Road, Prabhadevi, Bombay-25 DD. Tondarpet-Tamil Nadu, Automotive & Industrial grades of lubricating oils—170,000 tonnes p.a. (NU)

Electrical Equipment

M/s Eswaran & Sons, Engineers (P) Ltd., 5-7, Second Line Beach P. B. No. 1912, Madras-1. (Tamil Nadu). Cap. p.a. Oil Circuit Breakers—644 nos., fuse switches —609 nos., isolators— 58 nos., electrical stampings etc.— 500 tonnes. (C.O.B.).

Machine Tools

M/s Forbes Forbes Campbell & Co., Ltd, Forbes Bldg., Home Street, Fort, Bombay-1 (Maharashtra) high speed air tools (1200 nos.) (NA)

Fertilisers

M/s J.K. Chemicals Ltd, J.K. Building, Dougall Road, Ballard Estate, Bombay-1. (Maharashtra) superphosphate etc., (shifting from Wadala to Panchapakdi (Thana).

Chemicals (Other than Fertilisers)

M/s Ahmedabad Mfg. & Calico Printing Co. Ltd, (Calico Chemicals & Plastics Division) Anik Chamber, Bombay-7. nitrogen gas 360,000 cubic metres per annum (SE)

Dye-stuffs

M/s Atlabs Limited, 6-2nd Floor, India House, Fort Street, Opp. G.P.O., Bombay-1. Disperse Dyes (Azo type) 40 tonnes p.a. Disperse Dyes (anthraquinone type)—80 tonnes p.a (NA)

Drugs & Pharmaceuticals

Pfizer Ltd, ICICI Buildg., 163, Backbay Reclamation, Bombay-1. Isonicotinic acid, hydrazide—60 tonnes. (SE)

TEXTILES (Including those dyed, Printed or otherwise processed).

M/s Sabarkanth Jilla, Ru-Utpadakari Coop. Spinning Mills Ltd., Himatnagar (Gujarat). cotton yarn spindles. 12,500 spindles p.a (SE).

Sugar

M/s Charotar Sahakari Khand Udyog Ltd., Petlad, Distt: Kaira, Gujarat State. (Kaira-

Gujarat). Sugar—crushing capacity of 1250 tonnes p a' of Sugarcane). (N-U).

Rubber Goods

M/s Inchek Tyres Ltd.; Keslie House, 19, Jawaharlal Nehru Rd; Calcutta. (Kankinarra-West Bengal) Automobile tyres & tubes—3,00,000 nos. per annum (S F).

Leather Goods & Pickers

The Associated Tanners, 47, Durrels Bunglow, Vizianagram-3 (Andhra Pradesh) finished leather--171,000 pcs., p.a. (C O B).

Letters of Intent

Electrical Equipment

M/s Heavy Electricals (India) Ltd, Bhopal. Power capacitors- -1,38,000 KVAR P.A. (S E).

M/s Eswaran & Sons Engineering (P) Ltd, 5-7, Second Line Beach, P.B. No. 1912;, Madras-1. LT Moulded gas circuit breakers up to 1,000 Amp. rating (5000 nos. p.a.) (N A) electrical stampings for both static & rotatory electrical machines--upto 2,000 tonnes p.a. (S E).

Industrial Machinery

M/s Braithwaite & Co. (India) Ltd, Hide Road, Calcutta-43. (Hooghly—West Bengal) roll farmers--250 nos. p.a. (N A).

Fertilisers

M/s Madras State Industrial Development Corporation Ltd; 150-A, Mount Road, Third Floor, Madras-2. (Tamil Nadu) fertiliser factory. (N U).

Chemicals (Other than Fertilisers)

M/s New Central Jute Mills Co. Ltd., P.N.B. House, 5, Parliament Street, New Delhi-1. (U.P.) soda ash, ammonium chloride—110,400 tonnes p.a. ammonia—36,800 tonnes, p.a. (S E) M/s The Maharashtra Co-op. Fertilisesr & Chemicals Ltd; c/o The Maharashtra State Coop. Bank Ltd, Fort, Bombay-1. (Maharashtra) soda ash & ammonium chloride—250 tonnes p.a. (N U).

M/s Punjab State Ind. Dev. Corp. Ltd., UCO Bank Building, 3rd Floor, Sector —17, P.B. No. 81, Chandigarh. (Punjab). synthetic detergents—10,000 tonnes p.a. (N U). M/s Laxmi Industries, 10, Bruce Street, 2nd Floor, Fort, Bombay-1. (Haryana). synthetic detergents—36,00 tonnes p.a. (N U) M/s Cellulose Products of India Ltd, P.O. Kathwada Maize Products, Distt: Ahmedabad. (Gujarat). polyvinyl alcohol 5,00 tonnes p.a. (N A). M/s Ultramarine & Pigments Ltd, Bal dots Bhavan (5th Floor), 117, Queens Road, Bombay-1. (Tamil Nadu) synthetic detergents—(10,000 tonnes p.a.).

Drugs & Pharmaceuticals

M/s Maize Products, P.O. Kathwada, Ahmedabad, (Gujarat). sorbitol — 2000 tonnes p.a. (N A).

Textiles (Including those Dyed, Printed or otherwise Processed)

M/s Elsons Cotton Mills Pvt. Ltd, Punjab National Bank Building, Arya Samaj Road, Karol, Bagh, New Delhi-3. automotic looms for the manufacture of cotton cloth—300. (S E).

Sugar

M/s The Saraswati Industrial Syndicate Ltd.; Yamunagar, Ambala. (Mysore) Sugar—1000 tonnes crushing capacity. Shifting — from Haryana to Mysore.

Food Processing Industries

M/s Maize Products Ltd., P.O. Kathwada Maize Products, Ahmedabad-2. (Gujarat). liquid glucose—10,800 tonnes p.a. glucose dextrose—6,600 tonnes p.a. (S E) M/s Polson Ltd, P.O. Box No. 367, Bombay G.P.O., Bombay-1. BR. (Maharashtra) high protein beverage— 36,00,000 cases (each of 24 x 6 oz. bottles) p.a. (N U).

Change in Names

(Information pertains to particular licences only)

From M/s Hind Auto Industries Limited to M/s Automobile Products of India Ltd.

Licences Revoked/Surrendered

(Information pertains to particular licences only)

M/s Continental Plant Machinery Co. Ltd., Calcutta. detonating fuse. M/s K.T. Steel Industries Pvt. Ltd, Bombay mechanical hydraulic presses. M/s V.V. Dhanushkodi Nadar & Sons, Tuticorin. cotton seed oil. M/s Unichem Laboratories Ltd; S.V. Road, Jogeshwari, Bombay-66. Sulpha methoxy Peridazine.

RECORDS AND STATISTICS

Balanced Industrial Developmet

THE FEDERATION of Indian Chambers of Commerce and Industry organized a one-day seminar to discuss measures for achieving "Prosperity through Balanced Industrial Development." The seminar held in New Delhi on February 5 was inaugurated by Mr Fakhruddin Ali Ahmed, union Minister for Industrial Development, Internal Trade and Company Affairs. The Background Paper prepared for the occasion is reprinted below:

Introduction

The purpose of this Paper is to highlight some basic issues of industrial development and economic progress and, in particular, the spatial distribution of productive resources, employment opportunities and income. A basic goal of economic development is naturally the realisation of higher living standards for the people. In this endeavour it is necessary to see that no region of the country lags behind others. For, contrasts in levels of prosperity, be it between one state and another or between areas of the same state, weaken the integrative ties of the country as a federal entity.

The need for imparting the benefits of economic progress to less-developed regions and of securing development of backward areas find repeated emphasis in successive five year Plan documents. The Industrial Policy Resolution also spells out that "in order that industrialisation may benefit the economy as a whole, it is important that disparities in the levels of development between different regions should be progressively reduced.

Development of backward regions depends on the all-round increases in production and productivity in all major sectors including agriculture and industry, transport, power and communications. It is easy to find many examples in India of regions where agricultural development has been the mainstay of progress. Industrial development is only one of the several pre-requisites, and not necessarily the only one, for achieving a rapid transformation of a backward region into a modern and advanced one. This Paper however focusses itself on the issues pertaining to industrial development only.

Problems and Implications

What are the problems and implications of balanced development — economic, social and others ? To what extent, the objectives of regional dispersal of industry and balanced development have been already realised ? What type of strategy needs to be evolved to accelerate the pace ? What is the place of large, medium and small enterprises in promoting regional growth ? What are the roles of central and state governments towards development of backward regions ? These are some of the issues which are raised and discussed.

For historical, social, political and economic reasons, not all the regions of the country are equally developed. Industries have, on the whole, converged around vantage centres for various reasons such as availability of markets, raw materials, labour, infrastructure facilities etc. Historical reasons played their own part.

There are regional differences in terms of natural resources, agricultural and mineral-based raw materials, differences in degree of concentration of population and skilled manpower. While the quality of manpower can be changed in one region either through ensuring greater labour mobility or providing better education and training facilities, the distribution of natural resources cannot be altered. But many other factors are mobile. For example, skilled labour can be moved and so also raw materials. The lack of power, transport and communication facilities can be made good. Even entrepreneurship can be attracted. All these are policy factors which can make it increasingly possible to effect a more balanced distribution of industry. Even where natural resources are available or other favourable conditions exist, these will remain in potential in the absence of entrepreneurial talent which alone can assemble and organise them.

It is not that all areas in which industries are desired to be located are equally backward. For example, some areas are industrially backward, and yet the per capita incomes are high on account of the more productive agriculture. Such areas provide favourable conditions for industrialisation also. Agriculture gives a push to industrialisation as it generates surpluses for investment in industry. In many cases, as in parts of Tamil Nadu, Andhra, Maharashtra, Gujarat, Mysore, Punjab, etc. production of cash crops— sugarcane, raw cotton, oilseeds, fruits and vegetables, etc.— is efficient and the output is sufficiently large as to support many industries based upon them. Substantial rural incomes also mean larger purchasing power. It is estimated that the agricultural areas of Gujarat, Punjab, Haryana etc. have a large potential for absorbing industrial products.

Backward Regions

At the other end of the scale are regions which lack many essential pre-requisites for industrial growth, *viz.* a minimum level of efficiency in some major sectors of the economy *other than* industry *i.e.*, agriculture, trading, etc., lack of supply of labour and capital suitable for modern industry, adequate local demand for products of industry or supply of entrepreneurial talents. There are also instances of regions which, with limited development of industries, have attained an appreciable rise in living standards. There are some other regions where even massive projects have made no great impact. All this indicates that some areas are better conditioned towards industrialisation than others. The question therefore arises whether there are any non-economic factors which are necessary to ensure progressive industrialisation.

The development of any region can be attuned to suit its natural advantages. Some states have sufficient mineral resources. Others have forest and agricultural wealth. Each state and region has its own characteristic economic potential which can be used as a base for development and growth. If therefore development has not been balanced it must be due to deficiency of other factors. The most important of these, no doubt is the agency for development, be it the entrepreneur or the state.

How far has industrial backwardness of some states or regions been due to the absence of local entrepreneurship ? Has state initiative been lacking ?

Entrepreneurship and capital are mobile and will settle in any place in which the net advantages are on the plus side. These advantages consist in having an industrial minded labour force and infrastructure facilities.

To what extent can under-development of some of the regions be ascribed to deficiency of skilled labour ?

Industry is apt to move to areas in which social overheads and facilities already exist. The cost of creating infrastructure will be more if new centres of industry are distributed over a wide area. There are vast regions of the country which remain backward. On the other hand, in the long run, investment in social overheads in areas which do not have them stimulates their future development, as they become promising centres for industry. Potential entrepreneurs may be attracted to these places thereby facilitating development.

Can these divergent considerations in the use of resources be reconciled and if so, how ?

Concentration or agglomeration of industry is both socially and economically desirable to the point at which net external economies are at the maximum. When concentration goes beyond that point the additional social cost exceeds the economic advantage. What in fact is to be aimed at is planned urbanisation of backward areas to promote a cluster of industries— vertical or lateral— which has many positive advantages. When similar enterprises co-exist in the same locality the demand for the product increases either due to the increasing purchasing power in the region or as inputs for other industries. Labour productivity rises as a result of regular training — academic and on-the-job — in requisite skills and technique for specialised production. Service industries, repair facilities, credit and finance facilities grow and all other external economies are created. The existence of such industrial complexes generate conditions of competition from which suppliers of inputs, consumers and labour derive positive benefits. Such planned urbanisation is desirable as the urbanised centres become focal points of diversified industrial activity. Only when agglomerations give rise to congested living conditions their further growth needs to be discouraged.

The purpose of development of backward areas may not be served merely by asking the entrepreneurs to choose locations outside the big cities. Naturally, the choice of a location outside cities will be influenced by the locational advantages of a place. It may have to be nearer to a market; it may have to have all the facilities required for the efficient operation of industries; and the amenities to support a factory population. These considerations are important. The handicaps have to be removed or compensated for.

Potential Areas

Since there are constraints of resources — natural and social — should the incentives and facilities be given to all backward areas or should these be confined to a few selected areas having some basic potential for development such as raw material availability or market or transport facilities ? What are the criteria for selection of development areas ? It is suggested in many quarters that comprehensive regional development plans should be evolved in order to (*a*) find out the potentials by way of mineral and agricultural raw-materials and industry-wise possibilities of location in each region and (*b*) provision of such facilities as will remove the basic handicaps in development. For example, the handicap due to the absence of coal may be overcome by setting up of power stations. The lack of development of organised markets is considered to be another handicap in many regions which can be overcome by building up a structure linking locational centres of industries with market centres.

CHANGES IN REGIONAL PATTERNS OF INDUSTRY

What is the regional picture of industry today ? To what extent has it changed ? The trends in concentration and dispersal present a mixed picture. On the one hand, there has

been some change in the pattern of development of various states in terms of the number of units located in them. Some states have achieved significant growth in respect of small-scale industries as well. The share of state such as Maharashtra and West Bengal in overall industrial output such as number of factories, etc. has been somewhat reduced, while states such as Gujarat, Kerala, Madhya Pradesh and Orissa have made considerable strides in terms of one or other of the major indicators of progress - number of units, capital and labour employed, electricity consumed, value added by manufacture, etc.

Still, the major centres of industry continue to hold sway as favoured locations. In Maharashtra about 51 per cent of the total units licensed during 1956 and 1966 were for location in the Bombay-Thana-Poona area; in West Bengal the Calcutta-Howrah complex accounted for 71 per cent of location; and Madras City and Coimbatore together accounted for 59 per cent of location of the new units licensed in the state. Similarly of the total number of licences issued more than 60 per cent was for location in four states, *viz.*, West Bengal, Maharashtra, Gujarat and Tamil Nadu. Of course one reason for this has been the smaller number of applications received from other states. In the case of small-scale industries too the same tendencies are evident — 64 per cent of the small-scale units in the country are located in five states *viz.*, Delhi, Maharashtra, Punjab, West Bengal and Tamil Nadu. Even within these states, the major cities such as Madras, Greater Bombay and Calcutta-Howrah are significant locations.

Industrial development in different states as measured by the number of factories, labour employed, capital invested and net value added by manufacture, for the year 1950 to 1965 has been shown in Appendix I and II. Each state has developed, some more than others. The change in the ranking due to the differences in the rates of growth can be seen from Table I below.

(i) Number of Factories

Between 1955 and 1965 the ranking of the states of West Bengal, Maharashtra, UP and Assam continued unchanged in respect of the factories situated in each of the states as a proportion of total factories in the whole of India. Gujarat has gone up from tenth to third rank, Kerala from fifteenth to ninth, Mysore from thirteenth to eighth and MP from eighth to sixth. Andhra Pradesh and Punjab have lost their positions.

(ii) Number of persons employed

In terms of persons employed in factory establishments, Maharashtra, Tamil Nadu and West Bengal have retained while Gujarat and Kerala have improved their positions.

(iii) Capital Employed

Maximum increases in capital employed has been registered in states such as Bihar Gujarat, MP, Tamil Nadu, Punjab, Orissa and West Bengal. In some states such as Bihar, MP and Orissa, the increase has been significantly due to the location of large public sector projects, while in Tamil Nadu, Gujarat and Maharashtra large, medium and small-scale industries have contributed to the increase in productive capital. In Punjab, the main thrust has been in the field of small-scale industries.

Thus 381 factories in Bihar had employed capital of Rs 266 crores and 240 factories in Orissa had employed capital of Rs 278 crores. At the other end of the scale, Assam with 526 factories had an employed capital of only Rs 73 crores, Punjab with 637 factories had employed capital of Rs 213 crores, Gujarat with 1,196 factories had employed capital of Rs 250 crores.

The impact of increase in the number of factories, capital and labour has not been the same in all cases. In spite of the substantial additions to productive capital in states such as MP, Orissa and Bihar, the per capita incomes in these states remained below the national average of Rs 422 in 1964-65 (see Table II).

Government Estimates

Economic progress depends not only on the contribution of industry but also on other sectors. In some states a developed agriculture has made a greater contribution to per capita incomes, while in others agriculture and industry as also incomes from other sources including trading have been responsible for higher per capita income. The Working Group on Identification of Backward Areas has recommended a set of yardsticks to assess industrial development *i.e.*, per capita income, per capita income from industry and mining, per capita consumption of electricity, length of roads and rails in relation to population and area for the years 1964-67. On these basis the Working Group identified the following states, in order of rank as backward.

Nagaland (28); J & K (59); Orissa (72); UP (76); Assam (78); MP (80); Rajasthan (81); Bihar (85); AP (87).

All other states have an average development

TABLE I

RANKING AND PERCENT SHARE

Percentage share in total number of factories				Per centage share in number of persons employed			
1955		1965		1955		1965	
West Bengal	22·2	Maharashtra	21	Maharashtra	31	W. Bengal	21·5
Maharashtra	16	W. Bengal	15·1	W. Bengal	27	Maharashtra	20
Tamil Nadu	11·5	Gujarat	8·9	Tamil Nadu	9	Tamil Nadu	9·5
AP	9·5	Tamil Nadu	8·8	UP	9	Gujarat	8·5
UP	8 6	UP	6·4	Bihar	6·3	UP	8
Punjab	7·5	MP	6·4	MP	3	Bihar	5·5
Bihar	4 6	AP	5·7	Mysore	3	AP	5
MP	4·5	Mysore	5·0	AP	2·3	Kerala	4
Delhi	3·5	Kerala	4·8	Punjab	2·2	Mysore	4
Gujarat	3 5	Punjab	4·7	Delhi	1·5	MP	3·7
Assam	2·5	Assam	4·0	Gujarat	1·5	Punjab	3·4
Orissa	1 9	Bihar	2·8	Rajasthan	1·2	Assam	2
Mysore	1·6	Delhi	1·8	Kerala	1	Orissa	1·6
Rajasthan	1·5	Orissa	1·8	Orissa	1	Rajasthan	1·6
Kerala	1·1	Rajasthan	1·7	Assam	0·5	Delhi	1·6
		J & K	0·5	J & K	..	J & K	0·1
All India	100		100		100		100

Source: Planning Commission

over 100, the ranking beginning from the least developed of the more developed states being Kerala (111), Mysore (118); Haryana (120); Punjab (137); Maharashtra (146); Gujarat (147); Tamil Nadu (154); and West Bengal (160).

Note. Figures in brackets indicate the percentage variations in relation to all-India average (as 100).

TABLE II

Per capita income (State-wise)

(Rupees)

	1960-61	1964-65
Maharashtra	469	526
West Bengal	464	498
Punjab	451	575(504 (Haryana)
Gujarat	393	523
Tamil Nadu	334	434
Assam	333	441
Kerala	315	393
Mysore	305	420
Uttar Pradesh	297	374
Jammu & Kashmir	289	341
Andhra Pradesh	297	438
Madhya Pradesh	285	373
Orissa	276	347
Rajasthan	267	356
Bihar	220	299

Source: 1960-61; NCAER Estimates 1964-65

THE ROLE OF GOVERNMENT

Both the central and state governments have a predominant role in bringing about a balanced industrial development. Economic and technical considerations of location are always important. Yet by making regional dispersal an instrument of planning it might be possible to secure the development of backward areas. The following may be considered as the essential elements of a coordinated strategy for backward area development : (*a*) Provision of infrastructure facilities like power, communications, land and water, financial assistance through state finance corporations, removing obstacles and cutting out red tape in giving various permissions and clearances ; (*b*) Provision of fiscal incentives to attract entrepreneurs ; (*c*) Guidance from state ministries and officials to develop local entrepreneurship, and assistance in technical training; (*d*) Adoption of labour policies conducive to development; and (*e*) Streamlining of industrial, import licensing and allocation procedures for scarce materials.

The major emphasis of backward area development should be to provide for the necessary incentives to industrialists— large, medium or small— to go to backward regions. No amount of coaxing or persuasion can help the process if (*a*) the concerned area does not have some potential for development (*b*) if location in such a region does not adequately compensate for the advantages in more favourable locations. The emphasis should be clearly on provision of incentives and other positive measures.

To what extent the lack of positive measures as against regulatory devices like licensing has been responsible for the slow development of backward areas ?

A. Central Government Policies

It is said that the central government have a major responsibility in industrial development of backward areas.

What are the measures required to be adopted by the central government for attracting industries to backward regions?

Industrial Licensing : The licensing system under the Industries (Development & Regulation) Act 1951 has been the chief instrument to regulate location of industries as far as the central government is concerned. It is admitted by both the protagonists as well as the critics of the licensing system that it has been a negative instrument for promoting regional dispersal and that it has not been of much use in the development of backward areas because the number of proposals of locating industries in backward areas was much smaller than that for location in other areas. For example, it is said that of the 14000 applications received during 1956 and 1966, the share of the states identified as backward was only 2,200 *i.e.*, about 16 per cent although they account for about 55 per cent of population. Also some backward states have a larger share of non-implemented licences since a great deal depends on the initiative of state government in providing infrastructure and other facilities. It has been found that the licensing authorities have often to be the arbiter of making a choice from among applications from different states as it is the practice of most states (*a*) to support all applications emanating from them and (*b*) object to any subsequent shift of location proposed by an applicant for one reason or other. Many states also assure the necessary facilities at the time of application. For several reasons the enthusiasm to provide these facilities has weakened or disappeared in subsequent stages of licence implementation. Hence the large incidence of non-implementation of licences in the case of some states and frequent applications for change of location.

How far is it desirable to retain the licensing system as a means of promoting balanced regional development of industries ? If it is to be retained, to what extent it can be used as a means of preferring location of industries in backward areas in cases where there are a number of applications ? How is it possible to resolve the problem of divergent claims of different states? How can the problem of non-implementation of licences be overcome ?

Area Bans

It has been suggested in some quarters that area bans may be used as a means of discouraging location of new industries in already developed centres of industry particularly the metropolitan cities.

What are the merits of area bans? Can these be used as a measure to stimulate the interest of entrepreneurs to go to a backward area ? Will such measures lead to a situation in which the entrepreneurs do not go to an area desired by government and even give up the project altogether ?

Fiscal and Financial Incentives : Since licensing has proved to be a negative measure, the role of positive incentives as a means of regional dispersal has been emphasised. There is a clear case to provide direct incentives to encourage entrepreneurs to divert attention to backward areas. The problem of backward areas exists in many industrially advanced countries as well, like Belgium, Italy, Denmark, West Germany, Sweden, Norway, UK and France. All these countries have adopted comprehensive fiscal and financial measures to promote the development of designated backward areas. Such facilities are provided in the form of a package deal and are fairly comprehensive. A combination of measures like provision of loans on easy terms, outright grants and subsidies for building construction, tax incentives, site improvement and so on are given. In most countries the incentives are provided in the form of a package deal to entrepreneurs going to the backward areas. The main features of such schemes are the following:

(*a*) Grants are provided by most countries for building construction and purchase of equipment, in some cases to the extent of 50 per cent of the total cost of the projects as in Germany and Ireland. Loans and loan guarantees are available up to 90 per cent of the cost of installed machinery in backward areas in countries such as Denmark, at low interest rates.

(b) Tax incentives, particularly exemptions from corporate taxation for specific periods, are allowed, besides allowances for depreciation and development rebate in several countries such as Germany and Canada.

India has a federal set up. Both central and state governments have an equal responsibility towards backward area development. The incentives which are extended by both should be comprehensive and consistent enough to produce maximum results. No piecemeal measures will work.

Incentives in Backward Areas

The (Wanchoo) Working Group appointed by the National Development Council on Fiscal and Financial Incentives for starting industries in backward areas has gone into the question of providing various incentives for the location of industries in backward areas. The Working Group has recommended provision of developed plots on down payment basis, subsidy to the extent of 50 per cent of the cost of construction, provision of finance at concessional rate of interest, grant of exemption from income and corporate taxes for five years and from excise duties and sales tax for a period of five years and a transport subsidy for units in specified backward areas. The National Development Council considered these recommendations. On the basis of the decisions made by the National Development Council at its meeting held on September 26, 1969, government decided that :

(a) The general concessions offered by financial and credit institutions for financing industries should be available to backward areas of all states and union territories; (*b*) The financial institutions will formulate suitable criteria for assistance in consultation with the state governments and the Planning Commission to identify such backward areas requiring incentives for development. (c) The Government of India would subsidise the establishment of industrial units in backward areas, the subsidy being one-tenth of the total capital cost of projects both in private and public sectors where such capital costs do not exceed Rs 50 lakhs in individual cases. Cases involving capital cost above this limit will be considered on merits. (d) The subsidy will be available to industrial schemes in two districts each of the nine states identified by the Pande Working Group as backward, and one district in each of the states which are identified as developed and also one district each in the union territories. (*e*) The central subsidy as well as the concessions from financial institutions will be in addition to incentives offered by state governments themselves.

Apparently, the question of providing fiscal incentives like exemption from income and corporate taxes has not been decided by the National Development Council.

Will the above decisions fully meet the needs of backward area development? Will these be sufficient incentives for industry to go to backward areas? If not, what are the concessions required, fiscal, financial and others as far as the central government are concerned?

Subsidies are available only to units having assets up to Rs 50 lakhs, and above this limit cases will be considered only on merits.

Is this limit satisfactory? If not, what should be the criteria for determination of cases which merit consideration for assistance?

The Industrial Development Bank of India has already liberalised the terms of loans to

units to be located in backward areas. The IDBI, has extended the period of moratorium on loans and fixed concessional rates of interest on loans to units in backward areas.

What are the steps that are required to be taken by other financial institutions and nationalised banks?

Other Incentives

(*a*) *Pricing Policy* : Economic prices are an essential inducement to industrial development. But often industry does not have the freedom to fix prices on the basis of cost due to the prevalence of price controls.

To what extent is it feasible to recommend exemptions from controls of items produced by units located in backward areas?

(b) Exemption from banned list for industrial licensing for units to be set up in backward areas has been suggested by the Wanchoo Working Group.

What are the advantages of such exemptions, considering that it may lead to a degree of discrimination against units established in other areas?

(c) There are definite advantages of going to an area in which the wage levels are low. The Wage Board awards have been aiming at fixing uniform wages.

What should be the criterion for wage fixation by Wage Boards? Should it be on a uniform basis?

(d) A suggestion is made in some quarters that preference might be given to units in backward areas in the matter of allocation of scarce indigenous and imported raw materials.

Can such an approach be considered?

(e) It is said that transport being the main catalyst of change of location, dispersal can be brought about through an alteration in the basis of freight rate fixation. In railway freight fixation so far, the major criterion has been "what a commodity can bear." Obviously on such a basis the transportation of raw materials proves to be cheaper compared to finished products. On the other hand fixation of higher freight for raw materials as against finished products can be inequitable.

Is there a case for making transport of raw materials costlier as a measure of encouraging their processing in areas nearer to the sources of their occurrence? What are the implications of such an approach on the cost of production of existing units located nearer to the markets?

(f) It is suggested in some quarters that the backward areas should have a precedence in the matter of location of public sector projects. On the other hand, there can be valid considerations for locating a unit in a place which offers some favourable conditions, and considerations of cost and efficiency cannot be ignored. Only if there are some potentials for development in an area it can fully benefit from a large industrial project.

What are the important considerations for deciding location of central government projects? Is location to be solely guided by the criteria of backwardness of a region?

B. Role of State Governments in Industrial Development

Excepting the 160 industries, or so, which require a licence under the Industries (Development and Regulation) Act, 1951, the needs of development of all other industries have to be catered to by the state governments. These industries are mainly small-sized and can be an important instrument for achieving required balance. Even with regard to large and medium scale industries, which come under the provisions of the Industries Act, the state governments are directly concerned with the provision of infrastructure and other facilities. Thus, the state's responsibility extends to a large area which has to be properly looked after in order to promote healthy, rapid and balanced growth.

What are the specific responsibilities of states in this regard?

The states are directly concerned with the creation of a physical and human environment congenial to industrial growth. A major physical factor in development is the infrastructure. Expansion of roads, canals etc. which obviously fall within the purview of the states can help widen markets and consequently the scales of manufacturing, commercial and agricultural operations can be enlarged. All these will make for increasing investment, productivity levels, etc. which result in lower unit costs. Generation and distribution of electricity are other major prerequisites. These infrastructure facilities together with warehouses, storage facilities, water supply and other general purpose facilities are important aids to industrial development of backward regions.

Almost all state governments have adopted schemes for the provision of various infrastructure facilities and incentives to attract industries. The essential features of these schemes are : Provision of land and/or built up accommodation in selected places or growth points, assistance in the preparation of project reports, rebates in electricity duty, financial assistance under the State Aid to Industries Act, preferential treatment for industries located in backward areas in government purchases, provision of technical guidance and training facilities. Financial corporations and industrial development corporations have been set up in most states.

The terms at which assistance is available to entrepreneurs under various state government schemes differ from state to state. An essential feature of these schemes is that they are mainly applicable to small-scale industries. In fact, industrial development of the backward areas also entails establishment of large and medium-scale units and as such these facilities and incentives cannot be denied to them at least to the extent necessary to induce prospective entrepreneurs to choose location in the designated backward areas. Some of the incentives required to encourage industrialists to move to backward regions are enumerated below :

(*a*) *Land Acquisition*

Many state governments, of course, sell developed plots on no-profit-no loss basis and subsidise construction. Difficulties however are faced in regard to acquisition of land. One of the reasons for non-implementation of industrial licences in many cases has been the difficulties in the matter of acquisition of private land and high cost thereof. This problem can perhaps be overcome by state governments procuring the land directly at market price and making it available to the industrialists at a subsidised rate.

Is such a proposal feasible?

(*b*) *Incidence of various State levies on industry*

Various state and central government levies such as sales tax, excise, octroi etc. account for a major share of the sale price. In the beginning stages at least exemptions from these payments can possibly help units located in backward areas overcome the initial disadvantages of going to such an area. The Wanchoo Working Group has suggested a five-year exemption of products as well as raw materials required by units located in backward areas from sales tax. Not all state governments, at present, provide such exemptions. Only some state governments in their schemes for assistance have made provision for such exemptions or cash refunds in respect of sales tax and octroi and that too only on raw materials.

Is there not a case for a uniform procedure for exemption from these levies for all units in specified backward areas?

(*c*) *Construction of Buildings*

Only some states have created a 'revolving fund' of cement, iron and steel out of which loans are given to entrepreneurs in backward areas. In many cases location of units in backward areas will involve construction of workers' housing.

Since moving into a backward area will involve large-scale building construction, would it not be worthwhile giving a subsidy on workers' housing construction and priority allocation of construction materials?

(*e*) *Electricity Tariff*

It is said that in respect of electrification, the urban centres have received greater attention as compared to the backward areas. In respect of electricity tariffs concessions are available in most states for industries, both large and small. However, disparities exist in electricity tariffs as between one state and another.

Is it desirable to recommend a uniform rate of electricity tariffs for designated backward areas in all the states?

(*e*) *Preferential Treatment in State Government purchases*

Some state governments give preferential treatment in their purchases, among others, to units located in backward areas. However, such preferential treatment may have wider implications not only in respect of units located in other areas within the state but *vis-a-vis* the integrated development of the entire country.

Is it, therefore desirable to have price preference as an instrument of development?

(*f*) *Subsidy on Capital Cost*

According to the decision arrived at by the National Development Council the central government will give subsidy to the extent of 10 per cent of the capital cost in respect of units located in designated backward areas. This concession is stated to be over and above the concessions that will be available from state governments.

What are the concessions required from State Governments in this behalf?

(*g*) *Hire-purchase terms*

The small-scale industries are eligible for loans under States Aid to Industries Act to finance hire-purchase of machinery. The Wanchoo Working Group has recommended a concessional interest rate of 3 per cent for backward areas in respect of hire-purchase loans and a reduction in the initial earnest money required to be deposited from the present rate of 20 per cent to 10 per cent.

To what extent the adoption of this recommendation will go towards assisting the small entrepreneurs?

Would the sum total of concessions enumera-

ted above have any adverse bearing on units in more developed areas?

Technique of promoting backward area development

(i) Industrial Estates

What should be the technique for promoting development of backward areas within each state? Industrial estates which have proved to be a workable solution to backward area development in many countries such as UK, Canada, Northern Ireland, Hong Kong, etc. have been tried in India too since the first five-year Plan. So far, 325 estates with a combined capacity of 4,000 factory sheds have been built. According to the data on utilisation of shed capacity it is found that the ratio of utilisation was 62 per cent in rural centres, 76 per cent in urban and 52 per cent in respect of semi-urban centres. It is said that the location of industrial estates in isolated places and away from market centres or centres where large and medium-scale industries which provide a market for the products of small-scale industry has been responsible for the shortfalls in the utilisation of the capacity in many industrial estates. Also, another reason attributed is the preference given to the industries which use modern techniques and which have importance to the national economy such as reducing imports or increasing exports, over old industries or local enterprises in the rural centres. However, due to the remote location of some of the estates new types of industries are not attracted to the estates whereas the local or old industries obtain a low priority in allocation of sheds.

Should there be a demarcation of the types of industry according to the nature and location of the industrial estates?

Why should not the states proceed to build industrial estates near each new large-scale enterprise and then try to lure small industries to these new industrial centres by offer of factory facilities, public utilities, bargain rentals and fiscal incentives? It is felt in some quarters that it will be helpful to admit one or two medium or large-scale units into every industrial estate in backward areas to provide the climate and conditions for the development of small-scale factories. It is also possible to consider having two different types of industrial estates: One for those which process mainly agricultural and other local raw materials and to be located in rural areas and second those meant for ancillary industries by the side of large-scale industries.

How far is it desirable to have these two types of industrial estates?

(ii) Development of Industrial Complexes

Many places in the country have the potentialities for being developed as industrial centres for large, medium and small-scale industries. Once development starts it tends to have a snowball effect and gradually the centre develops as an industrial complex. The potential areas for the development of such complexes may be near sources of raw materials, port-towns which can be used as base for export, and so on. The location of these potential industrial complexes will have to be done after a detailed study of the economics of location. Feasibility studies and market surveys will have to be carried out directly by the state industries department or by the state industrial development corporations. The next step would be to have a plan for the infrastructure development of the region. Roads, electricity distribution, factory construction, house building, etc. have to be planned in advance.

What specific steps should be taken by state governments individually or in collaboration with each other to promote development of industrial complexes?

For industry to be attracted to these complexes, at least in the initial stages, the following types of incentives may be necessary :

1. Provision of developed land at concessional rents and an outright subsidy for construction; 2. A five-year tax holiday from the date of commencement of production. The holiday should extend to sales tax, octroi and all other state and central levies; 3. Provision for payment against various facilities including plot on easy instalment basis; 4. A subsidy on capital costs to projects over and above what is available under the central government schemes for backward area development.

What other incentives could be thought of as part of the package deal from the state governments?

COMPLEMENTARITY OF LARGE, MEDIUM AND SMALL-SCALE INDUSTRIES

The industrial structure is complex, composed of units operating at different scales of production. The scale of operation is dictated by techno-economic considerations. There is often a link between small, medium and large units. The small-scale units may be manufacturing final consumer goods or may be engaged in producing a component for medium or large units. It appears that the number of units in the first category may not be so large as the number of units in the second category. That is to say, the small-scale industry is also an ancillary industry in many cases.

In the development of backward areas, large, medium and small-scale industries have a complementary role, particularly in respect of those industries which have an ancillary angle or industries the products of which can be processed through medium, and small scale units. The reciprocal advantages of large and small-scale units are particularly evident where the large units need a number of ancillaries, and the small enterprises are to perform sub-contracting functions. Many industries such as industrial machinery, agricultural and earth-moving machinery, machine tools, industrial, scientific and mathematical instruments, locomotives, rolling stock, aircraft, bicycles, diesel engines, automobiles, commercial equipment, electrical machinery and equipment, tele-communication equipment, industrial instruments, radios and electronic equipment etc. have an ancillary angle where large-scale units can, with considerable advantage to themselves, extensively sub-contract to small-scale or medium-scale ancillaries.

The most ideal industrial structure is undoubtedly one in which the apex large-scale industry specialises in manufacture of the end products depending upon various levels of small-scale units producing different parts and components. Such a pyramidal structure would generate employment in increasing magnitude on every additional investment in the main unit.

Experience of some other countries

Complementarity of large and small enterprises is an accepted fact in industrial organisations in many developed countries. Under conditions of mass production no large unit can be expected to produce economically under its own roof every part and component which it needs. Hence, the emergence of ancillary units and consequent specialisation and increase in productivity. The small sub-contractor in due course grows into a larger one and the process is carried further with the growth of sub-contracting units to the original sub-contractor. In most countries, large-scale units chose their ancillary suppliers on a competitive basis. Technical assistance is given to the ancillary units by the parent firms, who, in their turn, derive the benefit arising from a guaranteed supply of products of given specifications at agreed time schedules.

The process of sub-contracting has developed in Japan as a normal feature of Japanese economy and not due to any particular effort made by government. Soon after World War II circumstances like capital shortage and unemployment encouraged many large entrepreneurs to offload parts and components to ancillary units and concentrate themselves on investment on the very essential equipment required for large-scale operations. This helped them to withstand the strains and stresses of fluctuating demand. The components procured from ancillaries often proved less costly compared to what it would have been if the large units themselves had undertaken to produce them.

In a number of industries such as sewing machines, bicycles, industrial machinery, automobiles etc. sub-contracted items ranged from 20 to 40 per cent of the production cost. Selection of sub-contractors is on a competitive basis though wherever prices are fixed through negotiations adequate profit margins are allowed. Selection is made on the basis of an examination of the technical competence and quality control arrangements of the ancillary units. Usually, long-term supply contracts are entered into with the ancillary units with provision for price variation, depending upon market conditions. In the case of a small-scale unit which supplies specialised parts on an exclusive basis to the parent unit, the latter extends special facilities including the supply of jigs and fixtures and provides technical guidance for maintaining quality.

In countries such as Sweden and Federal Republic of Germany while no special steps as such are taken to promote sub-contracting or to assist small industries engaged as sub-contractors, the system of sub-contracting is widely prevalent. In Sweden, the large assembly units purchase their parts on the basis of competitive quotations from several sub-contractors. Contracts are negotiated with individual firms only in special cases. Purchase of components are met from more than one source so that dependence on a single supplier is avoided.

In Germany there is a very highly competent small-scale sector. Consequently, most firms have a larger dependence on sub-contractors. The dependence is to the extent of 40 per cent of the turnover in industries such as machine tools. The large firms usually chose those sub-contractors which give them competitive prices, quality and timely delivery, though in certain special items they resort to negotiations with one or two firms.

The growth of multifarious ancillaries and feeder industries has been an inevitable factor in the emergence of mass production in the United States. The system of sub-contracting received positive support from the Stores Purchase Department of the American government who under law, have to ensure that "a fair proportion of the total purchases and contracts for property and services for government be placed with small business enterprises". The percentage of component parts and assemblies purchased by business machine factories from sub-contractors varied between 50 and 80 per cent of components. Some automobile manufacturers purchase 72 per cent of the components, raw materials, castings and forgings used in the manufacture of cars from outside. In the aviation industry, the dependence on sub-contracting is to the extent

of 50 per cent in some cases. In every large unit there is a well organised stores purchase department whose main responsibility is to look out for sources of supply of stores, parts and components from other firms and organisations. The purchase department locates new sources of supply on the basis of past performance in execution of their contracts and inspection of manufacturing facilities for specific items. The large firms not only supply the full technical specifications and blueprints for the products of the sub-contractors, but also send their engineers to the factories of the sub-contractors to give technical advice. Similarly the large units permit the technicians of the sub-contractors to come to their factories to get the necessary technical guidance for execution of the contracts. The sub-contractors are also usually supplied with jigs and fixtures required for the production of sub-contracted parts. In several cases the large firms loan out to them machine tools on a rental basis. Rigid quality inspection is undertaken and those products which do not conform to specifications are rejected.

Developments in India

The Industrial Policy Resolution recognises the complementary aspect of development of large, medium and small-scale industries. This aspect of development also finds repeated emphasis in the successive five-year Plans. What is equally important is that development in most industrial centres has largely conformed to this pattern.

During the past one decade or so, registered units in the small-scale sector have expanded from 23,000 in 1956 to 131,000 in 1968. Besides, there is a large number of unregistered units. There has been a significant development of ancillary production for a number of industries such as automobiles, tractors, earth-moving equipment, motorcycles, electrical equipment and the like both in small and medium-scale units. One evidence of this integrated development can be seen from the significant increase in bought out components used by many main producers. There are 200 automobile ancillary units on the books of DGTD. The percentage value of components purchased indigenously from ancillaries by one automobile unit has increased from 16.7 per cent in 1961 to 31.5 per cent in 1966 and in respect of another from 21.9 per cent to 41.7 per cent during the same period. In the case of one motor cycle manufacturing unit the proportion of bought out components from ancillaries represent 70 per cent of the total cost. The same firm has increased the number of components purchased from ancillaries from 44 in 1960 to 516 in 1969. Many large units have actively assisted development of ancillary units for meeting their requirements of the components and parts. It is, however, stated that there are still many impediments in the integrated development of large-scale and ancillary production.

Is it due to the ancillary producers taking up precision work which is beyond their ability or due to a lack of adherence to standards and specifications and delivery schedules on their part? To what extent factors like small requirements for each ancillary item, difficulties in supply of raw materials, inadequate financial and technical assistance, etc. have been responsible for the tardy growth of sub-contracting? Or is it due to the small-size of demand from parent companies?

What are the specific measures required to promote the integrated development of small, large and medium-scale units? Many suggestions have been made: It is suggested that large units in both private and public sectors should (*a*) make scrutiny of parts and components required by them for the purpose of locating and developing indigenous supply

APPENDIX I

NUMBER OF FACTORIES AND WORKERS EMPLOYED

	No. of factories				*Labour employed (In thousands)*			
	1950	1955	1960	1965	1950	1955	1960	1965
All-India	7,099	7,433	8,704	13,424	1,632	1,785	2,905	3,953
Andhra	—	760	472	769	—	42	143	215
Assam	89	141	452	526	6	8	68	75
Bihar	383	346	257	381	111	116	166	209
Gujarat	—	257	771	1,196	—	25	282	338
Jammu & Kashmir	—	—	35	52	—	—	7	9
Kerala	74	83	567	629	6	18	132	154
Madhya Pradesh	310	324	551	864	52	52	86	149
Maharashtra	1,736	1,196	1,724	2,823	537	551	626	775
Mysore	—	116	437	677	—	51	110	163
Orissa	135	129	98	240	11	16	26	68
Punjab	571	562	348	637	32	37	68	136
Rajasthan	97	106	106	222	17	22	43	68
Tamil Nadu	1,471	836	763	1,187	178	158	206	345
Uttar Pradesh	605	642	568	863	161	170	231	295
West Bengal	1,444	1,655	1,373	2,033	491	488	665	867

Source: Planning Commission, 1969

APPENDIX II

PRODUCTIVE CAPITAL EMPLOYED AND VALUE ADDED BY MANUFACTURE

(Rs crores)

	Productive capital employed				*Net value added by manufacture*			
	1950	1955	1960	1964	1950	1955	1960	1965
All-India	258	400	1286	3796	283	421	864	1686
Andhra Pradesh	—	7·7	51	150	—	7·0	23·3	52
Assam	1·4	2·2	29·6	73	1·0	1·5	25·6	22
Bihar	29·4	62·1	198·0	266·7	30·6	45·8	60·5	120
Gujarat	—	9·5	95·0	250·8	—	4·3	88	142
Jammu and Kashmir	—	—	0·7	1·8	—	—	0·8	2·6
Kerala	1·4	11	27·6	45·5	0·5	3·6	21·1	33·1
Madhya Pradesh	7·8	10·6	41	337	6·0	8·3	20·9	48·9
Maharashtra	72·9	93·3	276	564	104	148	238	417
Mysore	—	15·2	44	142	—	9·2	26·3	75.4
Orissa	4·4	6·5	34·9	278	1·6	4·1	8·5	38·7
Punjab	7·4	10·5	27·9	213	5·4	8·8	16·7	60·0
Rajasthan	4·0	8·0	20·3	86·6	0·8	3·7	8·7	20·5
Tamil Nadu	28·1	30·8	73·7	326·3	26	34	62	150
Uttar Pradesh	21·2	30·3	83·7	302·4	25·6	32·4	55·7	106.8
West Bengal	75·7	97·6	270	704	76·8	102	193	364

Source: Planning Commission

sources for imported items, (b) categorise items which can be conveniently developed in ancillary units in and around a particular undertaking, (c) identify items which could be farmed out to existing undertakings other than the ancillary unis, (d) extend financial, technical and managerial assistance to ancillaries by way of contribution towards conducting feasibility studies, market surveys, organisation of quality control and testing arrangements and (e) participate in the capital structure of the small-scale units.

A committee appointed by the Small-Scale Industries Board on ancillary industries has recently suggested that all public sector undertakings must organise exhibitions or set up display rooms for parts and components which are required to be developed by ancillary industries. Another suggestion is that large-scale units should undertake production within their factories only up to 40 per cent of the components which are essentially performance-oriented in engineering and other industries.

What are the merits of these suggestions?

Other Measures

For promoting development of ancillary units the following measures can be thought of :—

(a) Definition of ancillary and small-scale units

At present ancillary units are defined as those which have fixed assets not exceeding Rs 10 lakhs and small-scale units as those whose assets are less than Rs 7.5 lakhs. These definitions are apt to limit the sphere of small-scale and ancillary units in a growing industrial complex. Also, prices have substantially increased since 1966 when this definition was adopted.

Is there a need to revise these financial limits upward? Is such a limit necessary at all?

(b) Supply of raw materials

A major pre-condition for the efficient running of enterprises of any type or size is the ready availability of raw materials of the requisite quality. It is inevitable that the small-scale industries should have an assured supply of raw materials. In so far as sub-contracting is concerned, it is worth considering to what extent the large-scale units should be assisted to make available the necessary raw materials particularly scarce items, to the sub-contracted units.

What are the ways of improving raw material supplies to ancillary units?

(c) Technical Assistance

The small-scale units may require assistance by way of preparation of project reports and feasibility studies at the stage of starting an industrial enterprise. The necessary drawings and specifications for the products together with product designs and process know-how, jigs and fixtures etc. should be available. At the stage of running an enterprise a small-scale unit may require expert services for organisation of various management functions, in particular, marketing, stores purchase and materials control. There may be need for assistance in the matter of organisation of appropriate cost and quality control arrangements.

What are the responsibilities of the large-scale units to provide technical and managerial advice to their sub-contractors?

(d) Selection of sub-contractors

A degree of competition in the sources of supply has to be maintained for ensuring efficiency in production of the large-scale units. At the same time the ancillary units can become viable only if the market for its products is sufficiently large.

To what extent variety reduction through standardisation will help the enlargement of market for ancillary products? What is the scope of standardisation and what should be the agency to undertake this work?

(e) Assured off-take of products of small-scale units

Off loading of manufacture of parts and components to competent small-scale units also involves assistance in finding assured market for the products. It is suggested in several quarters that parts and components be purchased on a regular basis by large-scale units at mutually agreed prices.

To what extent guarantees of assured off take by large-scale units can be secured and what are the pre-conditions thereof, such as quality, performance, delivery according to schedule etc? What are the mutual obligations of the parent firms and the sub-contractors in this behalf?

(f) Code of conduct

It is also suggested that a code of conduct determining the relationship between large and small-scale units should be adopted, the main emphasis being on regularity of orders, adherence to supply and delivery schedules as also to standards and specifications, prompt payment of bills, etc.

(g) Sub-contracting exchanges

Sub-contracting exchanges are operating in some European countries which function as clearing houses for information regarding machine tool capacity available within a given area. The requirements of large-scale manufacturers are booked by the exchanges on behalf of sub-contracting units and small-scale enterprises.

What are the merits of the above proposals? Are they worth adopting in India?

The establishment of many basic industries in the large-scale sector can stimulate development of ancillaries. The industrial structure can be internally balanced only if there is enough scope for large, medium and small units to explore different areas of growth. From this point of view any restrictions regarding entry of large firms to certain areas and reservations of industries for development in particular sectors are not desirable. There are, however, suggestions to the effect that some industries be reserved for small-scale sector. In fact already there is a list of 47 industries in which only small-scale sector is allowed to expand. Some suggestions are also made to the effect that while issuing industrial licences a stipulation should be made to the effect that phasing should be achieved by the large-scale units through sub-contracting to ancillary units.

Will such compulsive measures produce the desired results? Will reservations help development of small-scale industries and a wider dispersal of industries?

Prepared by
FICCI Secretariat

APPENDIX III

INCENTIVES FOR BACKWARD AREA DEVELOPMENT IN SELECTED COUNTRIES

Italy

With the object of developing designated backward areas—south Italy, Sicily, Sardinia —legislation has been passed to further territorial planning by the creation of new town planning districts and by the construction of net work of roads, electricity grids and other infrastructure within such communities. Positive incentives are provided to private enterprise in these areas. The aim of such planning is to increase employment and stimulate capital formation thereby setting in motion transforming influences which will contribute to the growth of entire economy and thus reduce the disparities between north and south Italian incomes. The regional development programmes envisage public sector outlay on infrastructure to facilitate the diversified growth of private enterprise. Several incentives are available for industries going to these regions. These are :

(i) A 50 per cent reduction of turnover tax on machinery and materials and consumption tax on power used for industrial purposes. A 10-year income tax holiday on profits earned in new investments and 50 per cent exemption from taxes on investment in new additional facilities, exemption from payment of customs duties on imported machinery and materials, exemption from part of or all municipal levies such as octroi.

(ii) Federal Government grants up to 20 per cent of the capital needed for establishing new plants or expansion of established plants in municipalities with less than 200,000 inhabitants; grants to cover 100 per cent of the cost of public facilities for development of industry, reduction up to 50 per cent in freight rates applied for the transport of raw materials and machinery required for new or expanding plants.

(iii) *Federal Government loans up to about* 70 per cent of the total capital needed for new plants located in the development area of expanding facilities.

Puerto Rico

The government conducts cost-benefit studies for each sub-region. Feasibility studies are conducted to explore the availability of local resources, on the supply side, and estimates of the market prospects are made, on the demand side. Thereafter, the studies are turned over to prospective entrepreneurs for further calculations of costs, estimated sales and profitable unit costs. Such combined public-private planning leads to conclusions regarding investment priorities. Several incentives and facilities are provided to private enterprises according to these priorities and as integral parts of an organic development programme :

(i) Freedom from all federal taxes; (ii) Ten, twelve, seventeen years of exemption from income-tax as well as real and personal property taxes and licence fees, excise and other municipal taxes depending upon the location of the plants; (iii) Ten, twelve, seventeen years tax exemption of income received from the lease of real property constructed or installed for an exempted industry or income derived from the lease of equipment and machinery. (iv) fifty per cent tax exemption on income; exemption from municipal and property taxes for periods ranging 20 to 34 years according to the geographical location of factory.

Belgium

A combination of fiscal, financial and monetary incentives are given to industries to be located in backward areas. These are:

(i) Exemption up to 30 per cent of profits earned during the first three years. Capital gains tax is exempt provided gains which are re-invested in each estate or equipment in regional development areas. (ii) There is a five-year real estate tax exemption for enterprises receiving grants and loans for purchase or construction of plants and local tax concessions to enterprises not receiving loans and grants. (iii) Government grants are available for part of the cost of plant construction and purchase of equipment as follows : (a) Construction grants up to 20 per cent of the cost (30 per cent during recession); (b) Equipment

grants up to 7.5 per cent of cost (10 per cent during recession).

Grants normally are payable after completion of investment but an advance up to 50 per cent of construction grants may be made after the roof is raised in a new plant; (*iv*) The government subsidy to lending institutions is allowed equivalent to the difference between prevailing commercial rates and the rate charged from the borrower up to a maximum of 4 per cent (During periods of recession the interest rate charged may be reduced to a minimum of 1 per cent). Reduced rates are generally applicable for five years and exceptionally for eight years; (*v*) There is provision for financing of intangible investments such as on research and development.

Canada

A wide variety of incentives and facilities are available for industries located in backward areas. These are :

(*i*) There is a three-year tax exemption from the date of commencement of commercial operations; and there is a development grant, (*ii*) The units can qualify for special depreciation benefits as under :—(*a*) Most of the new machinery and equipment can be written off at an annual rate not in excess of 50 per cent on a straight line basis. (*b*) New buildings and significant extension during the specific period can be written off at an annual rate of 20 per cent on a straight line basis; (*iii*) There are exemptions from Federal sales tax such as on dies, jigs, fixtures and moulds; patterns for dies; jigs, fixtures and moulds; tools for use in important attachments to production machinery. The federal tax of 11 per cent is to be reduced to 6 per cent and to zero on machinery and apparatus sold to or imported by manufacturers for direct use in production; (*iv*) Provision s made for duty-free entry for articles and materials to be used exclusively in the manufacture of certain merchandise in Canada; (*v*) For new industries in backward areas, development grant is allowed up to a maximum of one-third of the approved capital costs not exceeding $ 250,000 and for capital costs beyond $ 250,000, one-third of $250,000 and one-fourth of the excess over $ 250,000.

Federal Republic of Germany

The incentives provided are : (*i*) Accelerated tax depreciation to new industries in border development areas not in excess of $ 69,000. The accelerated depreciation applies to 30 per cent of the movable assets ; (*ii*) Grants up to 50 per cent of the total cost of a project; (*iii*) Special grants are made to firms located in border areas to equalise their freight costs; (*iv*) Two types of loans are available *viz*. one for new plants at 3.5 per cent for fifteen years and the other for extension and modernisation of established plants at five per cent for 15 years.

France

An exemption up to 50 per cent of the tax due on investment income is allowed. Slightly accelerated amortisation on certain forms of plants and equipment is allowed and 50 per cent accelerated amortisation on plant and equipment acquired for research and development purposes. Reduction in computing capital gains taxes is also permitted in certain cases and reduction or elimination of local taxes in others.

Government grants are available up to 20 per cent of the total investment costs which includes new plant construction, new machinery extension or conversion of existing plants and transfer of equipment. One-fifth of any grant is payable in advance, and the balance half yearly. Government subsidies for enterprises which permit only a comparatively low return on investment are also envisaged.

Ireland

New manufacturing companies are not required to pay Irish income tax or corporation tax for 10 years on profits arising from exports of goods manufactured in Ireland

There is provision for interest-free loan on capital.

Machinery imported for manufacture and industrial raw materials for exports is exempted from import duties.

Non-repayable cash grants towards the cost of fixed assets of new industries are provided by an autonomous grants board. The maximum grants are :

(*a*) Two-thirds of the cost of fixed assets in development area; (*b*) Half of the cost of fixed assets in other areas. "Fixed assets" comprise sites, buildings, machinery and equipment excluding office equipment and transport vehicles. Only new machinery is considered for grants; (*c*) Cash grants for training of workers in new industries.

Shanon Free Airport Development Authority assists the establishment of new projects through payment of cach grants as under :

(*a*) 50 per cent of the cost of new machinery; (*b*) Full cost of training of workers; (*c*) Full cost of buildings; (*d*) Total exemption from income-tax and corporation profit tax on profits derived from exports until 1983.

Printed and Published by R. P. Agarwala, on behalf of the Eastern Economist Ltd., [illegible] Parliament Street, New Delhi, at the New India Press, Connaught Circus, New Delhi.
Editor : V. Balasubramanian
Registered at the G.P.O., [illegible] as a newspaper

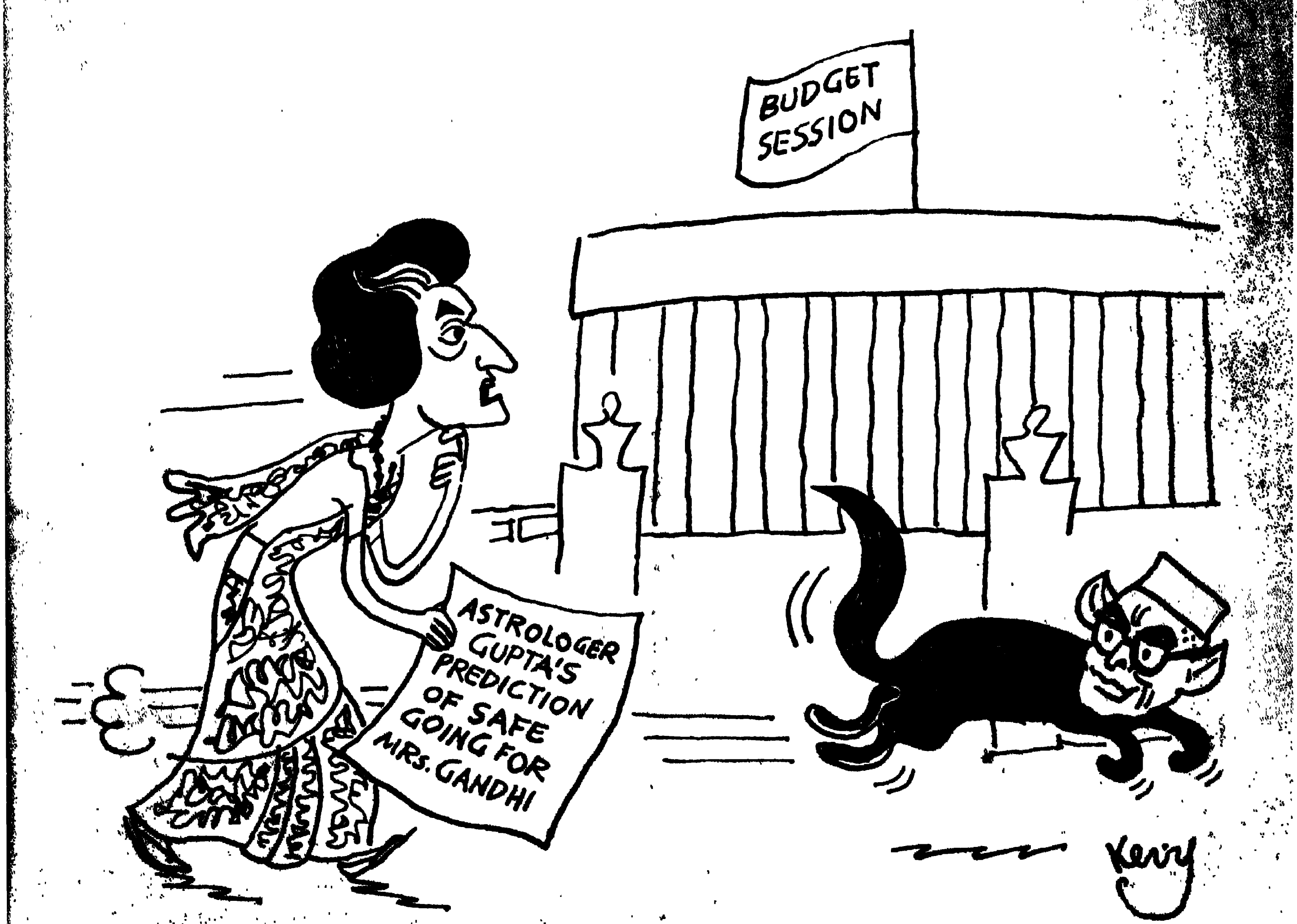
EASTERN 8 ECONOMIST

1.50. FEBRUARY 20, 1970. VOL. 54

DCM Rises Against the Kota Skyline

Appadorai Discusses the State in Economic Life

The central budget will [illegible] inflationary. This is bound to be [illegible] number one problem in the months [illegible] the political diversions and distractions [illegible] now seem so important. This is the [illegible] of "On the Eve of the Budget".



A Cat Has Nine Lives

EASTERN ECONOMIST

FEBRUARY 20, 1970

ANNUAL SUBSCRIPTION
INLAND : Rs 85.00
FOREIGN : £7-0-0 or $17-00
Airmail & Advertisement Rates on Enquiry.
REGISTERED OFFICE
UCO Bank Building, P. Box 34, Parliament Street, New Delhi-1.

On the Eve of the Budget

ON THE eve of the central budget this year, the Government of India has, whether intentionally or otherwise, provided itself with many diversions, useful or otherwise. There has been, to begin with, as attempt to reorder the politics of Uttar Pradesh to the greater comfort, even if not exactly the greater glory, of the Prime Minister. At the time of writing, it seems probable that Mrs Gandhi will have the satisfaction soon of seeing Mr C.B. Gupta or his group out of the state government. Even when this happens, her triumph would be far from complete since, as a direct result of her manoeuvres, Mr Charan Singh and his BKD would have been given the control of the Uttar Pradesh government on a platter. In other words, the casualty would be as much Mrs Gandhi's Congress as the other Congress.

This however is not a matter over which the public, whether in Uttar Pradesh or in the country at large, may want to shed too many tears. Their real concern must be with the prospects of governmental stability in Uttar Pradesh under Mr Charan Singh's tutelage. On this no opinion can be hazarded at present. The tortuous techniques of political brinkmanship adopted by Mr Charan Singh to bring about a BKD government under his chief ministership have not been such as to make him the most respected or most trusted politician in the state. This must go against him in any attempt, however sincere, which he may make in the future to inspire confidence in his *bona fides* among the political parties in the state or enlist their co-operation in performing the tasks of administration. Meanwhile, Mr C.B. Gupta has managed to live to fight another day. As for Mrs Gandhi, she has merely succeeded in confirming the widespread view of her as a schemer who is more accomplished in undoing rather than doing things.

Less exciting, but not less involved have been the goings-on in Bihar and Madhya Pradesh. In Bihar so many of the politicians of the old generation, irrespective of their particular party labels or affiliations, have been discredited by semi-judicial probings into their conduct while holding public offices of high responsibility or trust that it may reasonably be concluded that, if this state is at all to have a clean and efficient administration, what would be relevant is not which political party or political grouping has at last been able to form a ministry but what kind or quality of men have managed or may manage to become ministers in the government just formed by Mr Daroga Rai. The political scenario is not far different in Madhya Pradesh where, again, the problem is essentially one of unprincipled in-fighting among politicians ceaselessly scheming for public office for the opportunities it holds out for the unclean and improper personal gains. That so much of the current power-struggle in Madhya Pradesh happens to be a domestic affair of the Indira Gandhi group of Congressmen, is perhaps the only feature of this sordid situation which may be considered to be entirely normal and natural.

It may be odd but it is not altogether inexplicable that the Prime Minister's passion for a change of government or ministry is confined to Congress-ruled states and is not being extended to, say, West Bengal or even Kerala. If there has, in fact, been a change of ministry in Kerala it has been almost wholly because of the internal strains which had developed within the former United Front ministry there which was led by the CP-M. As for West Bengal, Mr Y.B. Chavan has been at pains to make it clear that the Indira Gandhi Congress is not at all interested in fishing in the troubled waters of Writers' Buildings. It is, of course, only too obvious that this particular doctrine of non-intervention or non-interference owes less to the spirit of *panchsheel* than the need which Mrs Indira Gandhi's group has for leftist support in Parliament on whatever terms this support may be forthcoming. In other words, the claims of stable and good government in the states seem to be among the least considered elements in the calculations of the present leadership at the centre, whether those claims arise in Uttar Pradesh or West Bengal.

These obvious political diversions apart, the Indira Gandhi group in the central government seems to be relishing equally keenly the semi-political distraction created by the judgment of the Supreme Court invalidating the Act of 1969 under which 14 major banks were nationalised. Since the original measure of nationalisation was essentially politically motivated, the ordinance issued last week, nationalising the concerned banks once again, but this time in the light of

the implications and requirements of the Supreme Court's verdict holding certain provisions of the earlier Act unconstitutional and bad in law, was entirely to be expected.

It was, of course, too much to hope that the Prime Minister would abandon the policy of nationalisation of banking merely because the Supreme Court had found fault with the details of legislation. Nevertheless, it would be wrong to conclude that the judgment of the Supreme Court has made no material difference. Apart from the fact that the legality of the latest ordinance itself could or may be called into question, the judgment of the Supreme Court has served to underline the reality, vitality and importance of the freedoms, rights and safeguards to which the citizens of this country are entitled by virtue of the Constitution they have given unto themselves. We believe that the Supreme Court's judgment on this occasion is a precious pronouncement, particularly in its timeliness, since it has demonstrated to the citizens of this contry the essentiality and worth of the Fundamental Rights enshrined in the Constitution and this at a time when even those politicians and political parties who ought to know better seem disposed to try to tamper with these safeguards for partisan political ends. However, there is still the disagreeable fact that, from a strictly short-term point of view, the Supreme Court's judgment has given Mrs Indira Gandhi the political opportunity of issuing an ordinance which she and her group will, no doubt, exploit as yet another vindication of their commitment to a socialist programme.

Thus, as the forthcoming budget session of Parliament opens, the Prime Minister and her group have raised a cloud of political dust which may come in the way of the public having a clear view of the challenges of the economic situation. It may still be not altogether easy for the present government at the centre to run away from the responsibilities of coping with the exacting demands of the national economy. This is for the simple reason that these demands are so urgent that they cannot be denied. Whether Mrs Indira Gandhi and her advisers like it or not, there will necessarily be a considerable increase in public spending in the next financial year at central and state levels. In our estimate this increase would be of the order of about Rs 1,000 crores. This increase in public spending will naturally be reflected in the consequential expansion of incomes and, therefore, money supply in the community.

It may be argued perhaps that, to the extent that a part of the increased public spending is financed by taxation or public borrowing, there will be a disinflationary influence. But since the government's efforts at increasing its revenue by these means are only designed to make a partial contribution to its commitments of expenditure, fiscal measures, such as additional taxation, will largely have the effect of transferring incomes from one section of the community to another rather than controlling the aggregate of incomes generated or to be generated. This apart, a large part of the increase in public spending at central or state levels and indeed a large part of the entirety of such public spending is apt to be of the non-productive or non-investment kind. The nation should therefore prepare itself for an aggravation of monetary pressures on the supply of goods and services and therefore of the price level. This development is threatened at a time when a steady growth of creeping cost inflation is making its impact felt on the agricultural, industrial and service sectors of the economy.

"V. B." will resume his column, 'The Moving Finger Writes', next week.

It may be said at once that it does not lie within the power of the Prime Minister or those who are advising her in the framing of the central budget to alter this outlook or even modify it considerably. Whatever the specific proposals of the forthcoming central budget may be, its basic character is bound to be inflationary. All that it may be possible to do through a judicious ordering of the fiscal proposals of this budget would be to try to moderate the inflationary consequences which are to be expected. Mrs Gandhi, in other words, cannot avoid making a bid for more revenue to support her commitments of increased public spending. In the process she must necessarily court an activisation or accentuation of inflationary pressures. The only issue of practical interest or importance therefore is whether the inflationary risk thus invited by her will be larger than it need be merely because of her lack of economic wisdom or her indulgence in partisan political opportunism. It follows that the major issues of economic stability and expansion which face the country will be related to the specific decisions of the central budget only as consequences of policies emerging from other compulsions.

Once it is conceded that the central budget and other parts of the forthcoming programme of public spending at central and state levels must, of necessity, be very considerably inflationary, it becomes necessary for us to ask what other steps can and therefore must be taken to defend the stability of the economy and promote its process of growth to the extent possible under the circumstances. It may be conceded at once that the government cannot do much here in the short period. Already shortages of goods, especially in the area of industrial production, have begun to affect the availability of articles of consumption of varying degrees of importance. This is being reflected in the prices of individual commodities as well as the general price level. It is not reasonable to expect that this trend could be reversed within the span of a budgetary year. What may probably be expected of the forthcoming central budget is that its basic economic policies, as distinct from its specific fiscal proposals, should take a warning from this threat of an imbalance in the economy and try to reconstruct the economic climate in such a way that a positive beginning is now made towards a steady expansion of investment and production at a fast enough pace.

From this point of view, what seems to be of particular importance now is the immediate removal of obstructions to industrial growth, in the form of negative governmental attitudes, inefficient administrative procedures or perverse political prejudices. Last week the central government took a decision to liberalise industrial licensing so as to free large areas of new industrialisation from negative or delaying administrative interference. We need more of this kind of reorientation of the philosophy and practice of governmental planning. This is not to minimise the relevance of liberal fiscal policies, but we are convinced that nothing much can be expected in

this particular direction from the forthcoming central budget because of the prevailing political circumstances. We would therefore now plead rather for more physical freedom for industrial growth as the immediate prerequisite for the nation's economic stability and progress, leaving it to the not-too-distant future to bring about conditions in which the government may be confidently expected to redesign its fiscal policies for serving more effectively their basic purpose of encouraging and helping the economy to grow faster.

Consultancy for Steel Making

THE MINISTER of State for Steel and Heavy Engineering, Mr K. C. Pant, observed at a press conference in the capital a few weeks ago that steel manufacturing capacity in this country would have to be doubled in the next 10 years even if the overall economic growth of the country during the fourth and fifth Plan periods were to be only at the rate of about six per cent per annum. Subsequent to this observation, the fourth Plan provision for steel has been stepped up substantially. The Bokaro plant is now to be expanded to four million tonnes during the fourth Plan period without waiting for the completion of the gestation period of the 1·7 million tonnes capacity which is being currently set up. The Bhilai steelworks is to be expanded to 4·2 million tonnes from 2·5 million tonnes. Preliminary work has also to be completed in regard to three additional steel plants in the public sector; for this a provision of Rs 110 crores is said to have been made in the revised draft of the fourth Plan. A more recent report suggests that decision on setting up three new steel plants—one in the Goa-Hospet region, the second in the Visakhapatnam-Bailadilla area and the third one at Salem in Tamil Nadu—would be taken soon. Some thought is as well being bestowed on the expansion of the alloy steel plant at Durgapur.

In view of the above ambitious programme, it is natural that concerted attention should be paid to the strengthening of the indigenous consultancy services for steel manufacture. It is indeed encouraging that the premier steel manufacturing undertaking in the country — the Hindustan Steel Ltd (HSL)—is gearing itself up to the task ahead.

Formed in April, 1959, the Central Engineering and Designing Bureau (CEDB) of the HSL has already built up a good deal of expertise in regard to designing of steelworks. The complicated tasks of the expansions of Rourkela steel plant from one million tonnes to 1 8 million tonnes and of Durgapur steel works from one million tonnes to 1·6 million tonnes were undertaken by it without foreign help. This bureau has also been closely associated with the expansion of Bhilai from one million tonnes to 2·5 million tonnes and has designed and engineered the sixth blast furnace complex which is currently under construction at this plant. The feasibility reports for the expansion of Bhilai beyond 2.5 million tonnes and that of Durgapur from 1.6 million tonnes to 3.4 million tonnes as well have been prepared by the CEDB.

Apart from these major jobs, the CEDB has successfully completed several smaller projects. These include the project reports of the special steel plate plant of the Ministry of Defence, the iron ore beneficiation plant at Barsua (for the supply of washed fines to the sinter plant at Rourkela) and the dolomite mining and crushing plant at South Ghatitnagar, the project development plan for the Ramgarh complex of the National Coal Development Corporation, the project report and technical specifications for the slag granulation plants at Rourkela and Durgapur, the detailed project reports for the installation of steel making and rolling facilities at an ordnance factory, the second sintering plant at Bhilai and the technological improvements in the productivity of blast furnaces at all the three HSL steel plants. Further, the CEDB has prepared several feasibility reports. Among these are the installation of seamless steel tubes plant at Bhilai and the setting up of a new unit at Rourkela for the production of cold-rolled, grain-oriented electrical sheets.

Several other services have also been rendered by the CEDB in its advisory capacity. These include: (*i*) feasibility report for the future development of Rourkela steelworks; (*ii*) preliminary report with two alternative proposals for the fourth Plan expansion of the alloy steels plant; (*iii*) scrutiny of the project report for the Bokaro steelworks; (*iv*) preparation of a report for the Government of India on setting up pig iron plants; and (*v*) intensive study of steel scrap availability on all-India basis and the feasibility of setting up electric furnaces or continuous casting plants for the production of billets. Another significant scheme being looked into by the CEDB concerns the direct reduction process of making steel.

With a view to strengthening its services, the CEDB has entered into two important foreign collaboration agreements. The first is with the West German concern, Dr. C. Otto, for building of coke oven batteries. The second is with the United Engineering and Foundry Company of the United States for the complete designing of all types of rolling mills. As a result of the latter agreement, it is hoped that the HSL-United will in course of time become one of the leading manufacturers of the rolling mills in the world in the same way as the Devy-United of Britain and the Shibaura-United of Japan. Following the signing of the agreement with the United Engineering, a number of inquiries are said to have already been received by the CEDB both from within the country and abroad. The foreign inquiries are said to be from the UAR, Indonesia and Singapore. A third agreement is now proposed to be signed with the Russian concern GIPROMEZ. Unlike the agreements with Otto and United Engineering which are for specific purposes, the agreement with GIPROMEZ is envisaged to be an omnibus one, covering every stage of steel making. The idea behind entering into the three agreements is to equip the CEDB for detailed engineering work of equipment which is considered to be a major lacuna in its services at present.

The proposed agreement with GIPROMEZ incidentally has come in for a good deal of criticism. The critics fear that it will give a lever in the hands of Russians to dominate our steel industry. Citing the example of western countries, they point out that consultancy services should remain content with drawing up of detailed project reports which lay down the broad parameters of plants to be set up. Detailed engineering of equipment, they argue, is a field which should be the preserve of equipment manufacturers. Even the Barve Committee, which went into the question of acquisition of foreign knowhow for equipment manufacture, in its draft report, it may be recalled, favoured the western model.

But are our engineering units in a position to undertake the job of detailed designing of equipment? The most important unit to produce equipment for the steel industry is the Heavy Engineering Corporation, Ranchi. This corporation is having too many headaches to allow it to develop detailed engineering of equipment. The private sector units also have yet to show adequate initiative in organising their equipment engineering bureaux. In the immediate future, if the services of the indigenous fabricators of equipment are to be utilised to the maximum, the task of detailed engineering of equipment has to be performed by the consultants. The CEDB has an added advantage in

this respect as it can draw upon the unique experience of the HSL which has three steel plants set up in collaboration with three different countries—West Germany, the United Kingdom and the USSR. As the equipment manufacturers develop their own engineering services in course of time, the CEDB can shed this part of activity. There should not be any difficulty in absorbing the CEDB personnel, who might become rebundant as a result of this arrangement, in the HEC design and engineering set-up as both are public sector undertakings located at the same place. The blanket agreement with GIPROMEZ, it is hoped, will not make the CEDB complacent about developing its own techniques to suit the specific conditions of the country.

A Tall Tower at Kota

THE UREA plant of the Shriram Group at Kota which was formally inaugurated by the Prime Minister, Mrs Indira Gandhi, on February 9, is one of the finest examples of Indo-Japanese collaboration. It was completed in less than two years and the credit for this achivement goes to the co-operative effort of both the Indian and Japanese engineers. The technical collaborators were Mitsubishi Shoji Kaisha, a trading company of the famous Mitsubhishi Combine and Chiyoda Chemical Engineering and Construction Company Limited of Tsurumi, Yokohama. While Mitsubishi supplied the plant, Chiyoda designed and engineered it. Mitsubishi has also supplied a power plant of 35 MW capacity (so that the urea plant relies upon its own power unit) and a demineralised water treatment plant of 160 tonnes per hour capacity. Mr Charat Ram, Managing Director of Shriram Chemical Industries, under whose able guidance the plant was set up, paid generous tribute to the Japanese technicians in his address at the inaugural function. He said that the Japanese technicians had worked shoulder to shoulder with Indian workers in order to complete this plant in record time. At present, the plant is being operated wholly by Indian engineers.

The factory has already attained its full-rated capacity of 700 tonnes of urea a day. As urea contains 46.2 per cent nitrogen, the annual contribution of this plant will be 110,000 tonnes of nitrogen. In a full year, it will save the country foreign exchange equivalent to Rs 18 crores through import substitution. What is more, urea produced by it will result in increasing foodgrain production by as much as 1.1 million tonnes worth more than Rs 80 crores a year. Thus this plant will play a very useful role in accelerating the green revolution in Rajasthan and the other neighbouring states such as Jammu and Kashmir, Punjab, Haryana, Himachal Pradesh, Uttar Pradesh and Madhya Pradesh.

An interesting aspect of the construction of the Kota plant is the application of modern techniques such as PERT (Programme Evaluation Review Technique) by engineers and managers of this unit. Tata Consulting Engineers were the local consultants of the project but it will not be easy to assess the burdens borne by the engineers of the company who faced all challenges cheerfully. The management had, after seeking foreign collaborations, arranged to provide for its engineers to undergo training in Japan, the Netherlands and Denmark so as to be able to run their own units efficiently. While the plant is no doubt a tribute to the engineering and operating skills of Indian as well as Japanese engineers, its completion owes much to international co-operation as the unit employs process knowhow from Denmark and Holland and design and plant from Japan. Incidentally, this plant is one of the world's largest single stream urea plants producing 450 tonnes of ammonia and 700 tonnes spray grade urea every day. Technologically it is considered to be one of the most advanced plants in the world. Incidentally, this is the largest chemical plant set up by the Shriram Group. In Kota, this is the third factory of this group, the other two being Shriram Vinyl and Chemical Industries (1963) and Shriram Rayons (1965).

It is necessary to emphasise here that no foreign financial collaboration was sought by the management in the setting up of this plant. It follows that no profits or dividends are required to be remitted to foreign collaborators. Again the cost in terms of foreign exchange for imported plant and equipment was about Rs 16 crores which is claimed to be the lowest for a plant of this size. The cost of importing plant and equipment will be more than met by foreign exchange saving through import substitution in the very first year of its operation. Mr Charat Ram, in his speech at the inauguration ceremony, made a useful suggestion to the Government of India. He said that foreign exchange from the free pool should be allowed for the establishment of fertiliser plants. According to his reckoning an average-sized plant needed foreign, exchange equivalent to Rs 20 crores and if the government set apart every year a sum of Rs 40 crores for this purpose, it will be possible to construct two such plants and obviate all the embarrassment which our country has faced while seeking foreign collaborations.

The management of this plant has chalked out a programme of educating the farmer in regard to the use of chemical fertilisers. It has evolved a non-

profit scheme (to be called Shriram Khad Programme) for this purpose, which will be run by several hundred experts and demonstrators in the states of Punjab, Haryana, Rajasthan, Uttar Pradesh and Madhya Pradesh. These experts will move from district to district and conduct free demonstrations and soil analyses. Thus the management is not limiting its efforts to direct marketing sales but has also taken upon itself the responsibility to popularise the use of urea which is relatively a new type of fertiliser.

The speeches made at the inauguration of the Kota plant by Dr Bharat Ram, Chairman of the DCM Group, Mr Sukhadia, Chief Minister of Rajasthan, and the Prime Minister, Mrs Indira Gandhi, were unanimous in one respect and that is that the controversy regarding the roles of the public and private sectors is sterile. There is work enough in this field for both the sectors and also the joint sector. The Prime Minister emphasised that at the end of the fourth-five year Plan period, there is likely to be a shortage of 1.5 million tonnes of nitrogen and nearly a million tonnes of phosphate. Instead of wasting time and effort in useless controversies, it is more relevant that the available talent in the country should be fully harnessed, so as to increase the production of fertilisers to equal the demand.

Wanted: A Policy for Exports

WHILE WE ought to feel gratified whenever we achieve something big, we must not allow ourselves to become complacent with even a slight reversal of a trend or the first sign of some improvement, as we seem to be doing in recent years. It was not very long ago that we flattered ourselves about our record export performance during 1968-69 as a major break-through. Almost within months of this claim, as though struck by an evil eye, there followed an alarming decline in the growth rate in our exports. On February 6, 1970, Mr B.R. Bhagat, Minister of Foreign Trade, could not resist the temptation again to wax eloquent, about our export performance on the basis of but one month's figures. True, at Rs 118 crores, the exports in December, 1969, amounted to a higher figure than either in November 1969 (Rs 105 crores) or in December, 1968 (Rs 110 crores). May be, again, the overall growth rate for the period April, 1969, to January, 1970, is 1.6 per cent; as against 0.8 per cent at one time. But do these two features by themselves warrant all the crowing about exports that Mr Bhagat indulged in? To most people, they certainly do not. Nor can one fully endorse all the reasons for the recent deceleration of our exports that Mr Bhagat gave. Besides, some other reasons that have adversely affected our exports also were not mentioned by him.

One of the reasons, in fact the first reason listed by the Minister of Foreign Trade was "world-wide decline in buoyant trading conditions last year." According to the OECD report, however, 1969 was one of the best years for the world trade which expanded by 16 per cent. Our country's share in world trade, on the contrary, declined from 0.8 per cent to 0.7 per cent, while its position in the international list of trading nations dropped from the 15th to the 22nd. "The growth rate of our exports tumbled down from 13·6 per cent in 1968-69 to less than one per cent during April-November, 1969," according to Mr C.C. Jhaveri, President of the All-India Exporters' Chamber.

If it was Mr Bhagat's intention to make the point that the crash export programme for an additional increase of Rs 60-70 crores during the remaining period of 1969-70 adopted on December 15, 1969, needed to attain the annual export rise target of seven per cent, has begun to yield results, it is a different matter. For both the December, 1969 export figure and the total exports of engineering goods from April, 1969, to January, 1970, (which were put down by him as being Rs 81 crores above the total exports of engineering goods for the whole of 1968-69) make distinctly encouraging reading. But, even here, the encouraging trend serves further to underscore the past neglect on the part of the authorities. As early as in March, 1968, industrial and trade organisations had drawn their pointed attention to both the rising domestic and overseas demand for engineering goods and the shortage in several categories of steel and billets, and yet they did not care to make any advance assessment of what the export target for the engineering industry (Rs 110 crores according to Mr Jhaveri and Rs 100 crores as per Mr Bhagat) would involve in terms of steel and billets.

It is a debatable point whether these shortages have been or can be overcome by utilisation of idle industrial capacity (one of the several steps taken by the government as part of the crash programme listed by Mr Bhagat) alone, inasmuch as these shortages represent maladjustments in the pattern of our industrial production and reflect the misguided tenets of social justice as witness the government's obsession with monopolies and large industrial houses and its licensing policy which "stifles enthusiasm, creates confusion, frightens new capital investment and hinders the generation of saving and productive investment of resources". To put it differently as Mr Jhaveri has done, verily, "the growth of exports is suffering from causes that are no less political than economic."

Mr Bhagat also spoke of "expeditious movement of export consignments." But how can this become a practicable proposition so long as the prevailing conflict of objectives at policy in respect of such issues as expansion of capacity and export duty is not resolved? Whereas Mr Bhagat's ministry treats export duty as an instrument to maintain the unit value of a given commodity, the Finance Ministry regards it as an additional source of revenue. No wonder that the former's proposal for any reduction in export duty generally meets with so much resistance at the hands of the Finance Ministry.

It is quite true as Mr Bhagat said, that the growth of internal demand for certain goods has reduced their availability for exports. But this was not, or could not have been altogether unexpected. The shortages that have now been allowed to develop could have been averted, had suitable steps required to step up exportable surpluses been taken in time. One of these was to ensure adequate capital investment and the requisite rate of industrial growth. Instead, we have been having restraints on capacity that not only hamper production but also hinder industries from achieving economies of scale of production. But Mr Bhagat has conveniently forgotten to refer to any of these inhibiting factors.

An ambitious programme of export promotion needs more than a resolution on a crash programme and we would commend to Mr Bhagat the presidential address of Mr Jhaveri at the latest six-monthly meeting of the All-India Exporters' Chamber which deals so comprehensively with this subject. In particular, we would endorse his plea for early adoption of an export policy resolution and his proposal for a long-term flexible export strategy. There is plenty of other relevant material too for study by anyone who is keen on raising the rate of our exports — whether it be the composition or the direction of our trade or the different approaches needed in dealing with different regions or under varying circumstances. Some of the suggestions made by Mr Jhaveri are as pertinent as they are pragmatic and deserve to be carefully considered and promptly implemented.

The State and the Economic Life

DR A. APPADORAI

TO WHAT extent should the state intervene in economic life in a developing country such as India, in which millions of people do not yet have the minimum requirements of life -- food, clothing, shelter, medical treatment and education—and adequate employment to enable them to procure these by their own labour? Recent pronouncements by three political parties — the ruling Congress (at Bombay), the organization Congress (at Ahmedabad) and the Jana Sangh (at Patna) are worth examination in respect of their attitude to this basic question. We need remind ourselves also of the fact that they are all committed, as the Indian Parliament is, to the socialist pattern of society.

An analysis of the resolutions on economic policy passed at Ahmedabad, Bombay and Patna should begin with the observation that the common man is aware of their limitations: these are emotional in content and are meant to catch the potential vote; similar statements have been made before with little appreciable result. Even so, these pronouncenents have their impact: they indicate the trend of thinking in political circles, and the common man may be trusted in due course to ask those in authority through methods open to him to implement some, if not all, the ideas so that his economic lot may be improved. A revolution in rising expectations is a political dynamite which can be ignored by the nation only at its peril. I shall first indicate the similarities and then the differences and finally examine whether these approaches will solve the basic issue, namely: What is the place of the state in making possible optimum production and equitable distribution?

Common Ground

It is remarkable how much the three political parties agree on fundamentals. The four following points stressed in the Bombay resolution are common ground:--

1. To obtain a rapid rate of economic growth in which prior consideration is given to the income groups farthest removed from the national minimum resting to basic needs;

2. To bring about a basic change in the existing economic relationship in society with a view of eliminating the exploitation of the weaker by the dominant;

3. To reshape the economic structure in a way which will yield maximum production without allowing the emergence of private monopolies and growth of concentration of wealth and economic power;

4. To increase employment significantly and in such a manner as will result in fuller utilization of manpower which is one of the most important productive resources of the society.

Similar Approach

Planning of economic life by the state must, therefore, continue; economic inequalities must be reduced and, incidentally, the flamboyant display of material possessions must be curbed; employment opportunities must be increased considerably; land reforms already enacted must be implemented quickly so that the actual tiller of the soil may have, through security of tenure, the inducement needed to provide optimum production; the needs of agriculture such as irrigation, credit, better seeds and modern methods of cultivation must receive priority in attention; co-operatives must be encouraged; the establishment of a network of agro-based and small industries in rural areas is essential to provide more employment; surplus land must be distributed to landless labour; concentration of economic power must be prevented; the efficiency of public sector enterprises must be improved; industral workers should be allowed opportunities for participation in the management of industries; simplification of taxation laws with a view to plugging loopholes, checking evasion and realizing arrears is imperative and a crash programme for mass housing through provision of land sites and easy loans from financial institutions, especially to people of low and middle-income groups, is overdue.

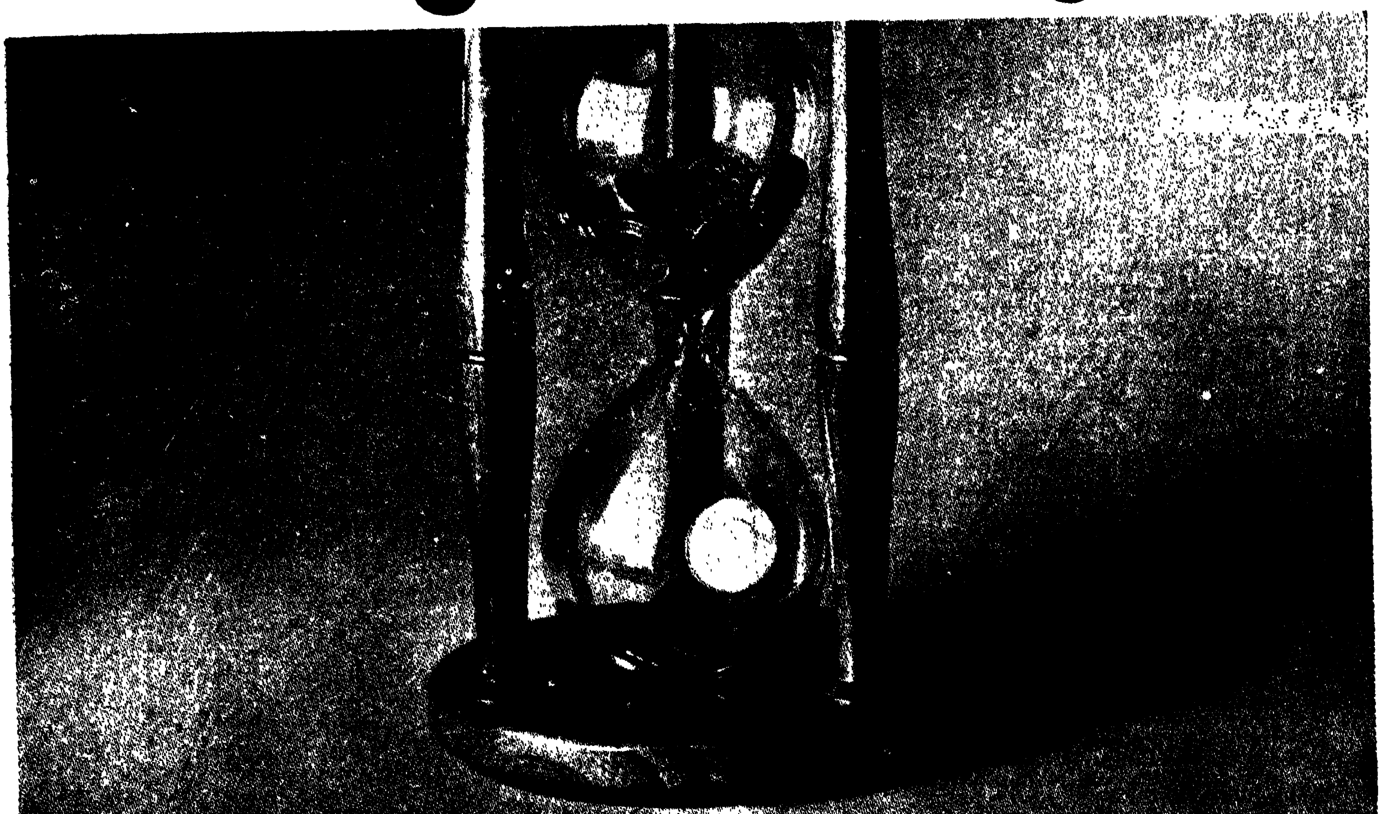
In indicating the differences of approach, perhaps the most striking point is that the differences of the programmes of the two Congress parties are less than the differences between their programmes and that of the Jana Sangh. Thus both the Congress parties are concerned with urban problems as well as rural; they express their concern for the welfare of children and would like the state to initiate action with a view to promoting their welfare. The Jana Sangh is silent on these issues. The two Congress parties emphasize that the public sector must continue to expand. Thus the Bombay Congress calls for nationalization of general insurance, asks for the taking up by the public sector of wholesale trade and procurement of major agricultural commodities as well as the bulk of the import trade of raw materials. The Bombay Congress "has accepted social ownership and direction of the commanding heights of the economy. The public sector must continue to expand and immediate steps have to be taken to create a competent economic cadre to manage public undertakings." The old Congress would go so far as to suggest other measures "including capital levy" to abridge inequalities. The new Congress is more explicit against concentration of economic power than the old one; the old is more explicit in emphasizing that "tests of performance and productivity must be fully met by labour", whether in the private or public sector. The old Congress is also more aware of the complementary nature of the public and private sectors: both must justify themselves by improved productivity and their sense of social responsibility and "both should be fully enabled to discharge their respective roles which are complementary."

The Jana Sangh, understandably, would not emphasize the role of the public sector. The programme, according to the leaders themselves, was only a restatement if not amplification of the Sangh's basic policy favouring diffused enterprise as opposed to concentration of economic power in the hands of an individual, group or the state; the ninth point in their published programme asks for withdrawal of all restrictions in the case of industries, except where foreign exchange is involved or where there is threat of monopolistic tendencies.

The Basic Issue

Let it be stated clearly that the essence of socialism, which the country has accepted as its goal, is the organization of the economic and the political life in society in such a way that economic equality, economic security, and economic freedom are achieved for the mass of the people; their achievement presupposes that the physical and human resources are so used as to result in optimum production. The socialist organisation of society will inevitably find place for public enterprise, co-operation, and private enterprise.

Our task is to define the spheres of each of these having regard to the stage



of economic growth the society has reached, the moral and technical competence of the personnel available, the incentives available to keep production at the optimum level, and the willingness and the capacity of the citizens to shoulder the burdens which are inevitably implied in running any form of enterprise with an eye to optimum production, economic security and economic freedom. Further, none of these three goals should be ignored at the expense of the others.

In the context of this discussion, the statement made by the president of the ruling Congress that "distribution is more important than production" does not make sense. Obviously to say that we must distribute *before* we produce is not meaningful. It has been rightly said that even if all the surplus income and wealth of richer persons were distributed to persons of lesser means, it would not make an appreciable change in the eradication of poverty. The only panacea is the optimum utilization of manpower resources, the increase of their efficiency through proper training, the discovery of entreprenurial talent and the provision of incentives for greater and greater productivity. Slogans like "distribution is more important than production" do not go to the root of the problem.

Nouveau Riche

There is one aspect of distribution, however, on which a word may be said. Since the attainment of independence, a new rich elite of politicians using political power to enrich themselves is clearly visible on this horizon, of ministers, and parliamentarians leading an affluent life. It is no doubt a small class, but still a clearly visible one. The increase of allowances given by parliamentarians to themselves at the last session of Parliament is one glaring illustration of this trend, not to speak of the illicit gains of politicians as commented on by the one-man commission in Bihar which sat in judgment on the allegations of corruption by former ministers.

Slogans like "In a socialist society, the public sector is more important than the private sector", "Quit Poverty" and "Distribution is more important than production" cloud clear thinking and raise hopes which are difficult to fulfil. A pragmatic approach to social and economic problems is the best; Jawaharlal Nehru, whom we often profess to follow, had the good sense to follow that approach. In a speech delivered in 1957, he outlined his approach thus:

> I am not enamoured of these "isms" and my approach is, and I should like to say the country's approach should be, rather a pragmatic approach in considering the problem and I want to forget the "ism" attached to it. Our problem today is to raise the standard of the masses, supply them with their needs, give them the wherewithal to lead a decent life, and help them to progress and advance in life not only in regard to material things but in regard to cultural and spiritual things also. What will happen in the distant future I do not know, but I should like to set them on the right road and I do not care what "ism" it is that helps me to set them on that road, provided I do it.*

In such a pragmatic approach, as the Prime Minister recently declared, there is ample scope for the public and the private sectors; the declaration of the Bombay Congress that "it is necessary to enlarge the role and scope of the public sector" is meaningless. What is meaningful is: if the public sector, in a concrete situation, will deliver the goods, by all means employ it for the purpose; but in a different situation, if the public sector will not deliver the goods, discard it. The time-honoured principles of state intervention in economic life are: the state should prevent fraud and exploitation in economic life, and with this end in view regulate it suitably; provide the political climate in which individual initiative can develop; undertake those projects which the state alone can, with its resources, undertake, and which may not be undertaken by private agency due to the vast resources required. A huge steel mill like Bokaro is clearly within the state field, not the private; and above all, aid individuals, as the state is doing in India in respect of farmers, in the better pursuit of their calling. To aid, watch, control and regulate production and distribution in order to prevent exploitation, and to undertake production in fields which are clearly unsuitable for private agency is itself a mighty task; the more the state restricts itself to this mighty task the greater will it promote the economic health of the nation.

In stating the principles thus, let it be finally noted, we are not going as far as Gandhi, the Father of the Nation, would have liked to go in limiting the functions of the state: He was of the view that that government is best which governs least. Too much state interference, Gandhi stressed, destroys individuality. He looked upon an increase in the power of the state with the greatest fear, for, he wrote,† although it apparently does good by minimizing exploitation, it does the greatest harm by destroying individuality which lies at the root of all progress. Nor are we accepting Jayaprakash Narayan's extreme view of "people's socialism". He wrote in 1959 :

> Speaking as a socialist, I would put it thus : the rememdy is to create

* *Jawaharlal Nehru's Speeches:* Vol. I (2nd Edition, Delhi, The Publication Division, Government of India, 1958), Pp. 140-43.

† *Modern Review, 1935, p. 413.*

and develop forms of socialist living through the voluntary endeavour of the people rather than seek to establish socialism by the use of the power of the state. In other words, the remedy is to establish *people's socialism* rather than *state socialism*. *Sarvodaya* is people's socialism.*

The principle of the mean is the safest one; society is ill ordered not only when liberty and equality are extinct, but when the citizens carry them too far. The landlord of the "Rainbow" in *Silas Marner* had firmly grasped this truth when, after having listened to hundreds of political discussions, he framed his formula; "The truth lies between you: you're both right and both wrong, as I always say."

* Jayaprakash Narayan, From *Socialism to Sarvodaya*, p.39.

The Case of Indian Stock Exchanges

SHRIKRISHNA VANJARI

THE AHMEDABAD, Bombay, Calcutta and Madras stock exchanges, in a recent joint memorandum addressed to Prime Minister, Mrs Indira Gandhi, have presented the case against prohibition of forward trading and put forward proposals for resumption of forward clearing suspended by the Government of India in June 1969, in an abrupt manner, on the ground of steep rise in share prices in the first half of 1969 and 'cornering' of shares.

A part of the rapid rise in prices of shares, according to the stock exchanges, was nothing else but a natural rebound of prices on return to normalcy. Another part reflected the remarkable improvement in the general economy, the progress of the joint-stock sector and the excellent corporate results actually achieved.

It would, therefore, be interesting to summarise the facts and arguments presented, along with concrete proposals, including amendments to the existing regulations introduced for smooth and orderly operations in the country's stock exchanges that are calculated to deal with and prevent any disturbance of the kind cited as justification for suspension of the forward market in the stock exchanges.

TABLE I

JOINT-STOCK CAPITAL QUOTED ON STOCK EXCHANGES IN INDIA

Item	Year 1946 (Rs crores)	Year 1968 (Rs crores)	Increase in 1968 over 1946 (Percentage)
1. Paid-up capital of			
(a) Non-govt. public limited companies	306.00	1,471.00	381
(b) Listed companies	270.40	1,344.50	397
2. Market value of paid-up capital of listed companies	971.00	1,697.00	75
3. Average paid-up capital per listed company	0.24	0.86	258
4. Average market value of paid-up capital per listed company	0.86	1.09	27
5. Paid-up capital of listed companies as percentage of paid-up capital of non-govt. public limited companies—1(b) as % of 1(a)	88 per cent	91 per cent	

TABLE II

NEW CAPITAL ISSUES DURING THE FIVE-YEAR PLANS

(Rs crores)

Plan	Period	Initial issues	Further issues	Debenture issues	Total
First Plan	1951-1955	-	--	--	142.68
Second Plan	1956-1960	58.93	102.36	44.15	258.14
Third Plan	1961-65	148.57	149.46	109.46	407.29
Annual plans	1966-68	53.28	82.91	68.53	204.72
TOTAL	1957-68	260.58	334.73	222.14	817.45
TOTAL	1951-68				1,012.83

Important Constituent

The stock exchanges claim to be an important constituent of the capital market that has been directly or indirectly helping in the capital formation by providing a market for the purchase and sale of stocks, shares and securities and also as a forum for promotion of new issues of capital.

Table I shows, at a glance, the position of joint-stock capital quoted on stock exchanges in India before and after Independence.

In 1946, the paid-up capital of companies listed on the stock exchanges amounted to only Rs 270 crores; it increased, at the close of 1968, to Rs 1345 crores, a rise of nearly 400 per cent. During the same period, the market value of the paid-up capital increased by 75 per cent from Rs 971 crores to Rs 1,697 crores.

The stock exchanges also mobilised savings and channelled them directly in the new issue of capital, thus accelerating the economic development of the country. The position of new capital issued during the three five-year Plans and also the annual plans for 1966-67 and 1967-68 is given in Table II.

At the same time, members of these stock exchanges, acting as security brokers, assisted the Reserve Bank of India in floating public loans and facilitating their distribution through open-market operations. The saving channelled in the gilt-edged securities representing the public sector was estimated at Rs 115 crores during the first Plan, Rs

700 crores during the second Plan, Rs 800 crores during the third Plan and it is to be Rs 1,500 crores during the fourth Plan. The position of public debts during the plan periods is given in Table III.

TABLE III

PUBLIC DEBT DURING THE FIVE-YEAR PLANS

(Rs Crores)

Plan	Period	Net market borrowings	Net cash receipts from the public*	Open market sales to public	Net absorption by the public (2 plus 3)
		1	2	3	4
First Plan	1951-52 to 1955-56	177.2	192.3	97.6	289.9
Second Plan	1956-57 to 1960-61	746.9	367.3	90.6	457.9
Third Plan	1961-62 to 1965-66	877.7	477.8	56.0	533.8
Annual Plans	1966-67 to 1968-69	490.3	299.0	209.4	508.3
TOTAL	1951-52 to 1968-69	2,292.1	1,336.4	453.5	1,789.9

*Excluding the Reserve Bank of India and central and state governments.

TABLE IV

SHARE OWNERSHIP OF 189 COMPANIES LISTED IN BOMBAY, CALCUTTA, AND MADRAS STOCK EXCHANGES : DECEMBER 1965

Category of Owners	No. of shareholders (Accounts)	Percentage to total	Paid-up value of holdings (Rs crores)	Percentage to total
Individuals (including joint holdings)	10,64,775	98.98	192.65	45.58
Joint stock companies	4,909	0.46	138.46	32.76
Financial institutions	3,222	0.29	78.31	18.53
Trusts & charitable institutions	2,134	0.20	5.41	1.28
Government & semi-government bodies	90	0.01	7.14	1.69
Others	652	0.06	0.73	0.16
TOTAL	10,75,782	100.00	422.70	100.00

TABLE V

GROWTH IN NUMBER AND HOLDINGS OF SHAREHOLDERS IN COMPANIES LISTED ON BOMBAY, CALCUTTA AND MADRAS STOCK EXCHANGES

Size of holdings (Rs)	No. of shareholders (No. of accounts) in		Increase in 1965 over 1959 %	Value of share-holdings in (Rs crores)		Increase in 1965 over 1959 %
	1959	1965		1959	1965	
1— 1,000	2,22,480	2,66,729	20	11.21	13.83	23
1,001— 5,000	86,987	1,15,311	33	21.14	26.99	28
5,001—10,000	13,848	17,102	24	10.08	12.35	23
10,001—25,000	6,759	7,964	18	10.52	12.22	16
25,001—50,000	1,595	1,751	10	5.44	6.03	11
Above 50,000	858	900	5	14.35	14.47	1
TOTAL	3,32,497	4,09,757	23	72.74	85.89	18

As these figures show, the stock exchanges have made a significant contribution to the success of the government's borrowing programmes for financing the five-year Plans and public sector undertakings.

Another important aspect of the situation is that investment in stocks and shares has been democratised and has ceased to be the kind of monopoly it had been before of a small and privileged class and groups of persons. The investors and holders of joint-stock company shares now include a fairly large number of small and middle class individuals. Table IV shows the position of ownership of shares of 189 joint-stock companies listed in the Bombay, Calcutta and Madras stock exchanges:

RBI Survey

According to a survey conducted by the Reserve Bank of India, the total equity capital of Rs 423 crores of 189 companies listed in Bombay, Calcutta and Madras stock exchanges was owned by nearly 11 lakh shareholders at the end of December, 1965. The paid-up capital had amounted to one-half of the total equity capital listed on these three stock exchanges and its market value had represented about three-fifths of the total market value. The total number of book shareholders might be estimated at about two million.

How, between 1959 and 1969, the total number of individual holdings in 48 companies increased by 23 per cent and, simultaneously, the paid-up value of individual holdings increased by 18 per cent can be seen from Table V.

It is significant to note that 94 per cent of the increase in the number of new holdings was in the size-range below Rs 5,000 which accounted for 64 per cent of the increase in the paid-up value.

The stock exchanges provide an orderly market, liquidity and free negotiability of shares and securities which are of vital interest if investment is to grow and expand throughout the country.

The government notification dated June 27, 1969, and issued under section 16 of the Securities Contracts (Regulation) Act, 1956, had prohibited forward trading in shares at all the stock exchanges. A government press release issued simultaneously had explained that the ban was imposed to curb 'certain unhealthy trends (that) have been developing of late in the shares and securities business'. The main reasons put forward by government in support of prohibition of forward trading of

shares are:—(1) the steep rise in share prices in the first half of 1969 and (2) speculative cornering of shares. The stock exchanges, in refutation of what they describe as governmental misconceptions over the actual situation, cite the Reserve Bank of India equity index starting with 1961-62 as 100 that had rolled down the slippery slope, as a reaction to national catastrophes of two foreign invasions on India's border regions, successive droughts and failures of crops, miscalculations of rupee devaluation, mounting balance of payment difficulties and industrial recession of unusual severity, and touched the bottom at 71·9 in December, 1965. In the next three years, the index fluctuated narrowly between 74 and 84. Following the overall economic situation that reflected economic growth and progress in 1969, the equity index started moving up rapidly from 81·4 in January 1969, to 99·8 in mid-June, 1969.

Representative Index

The RBI index is based on 375 securities out of which 93 or only one-fourth are on the forward or cleared security list which means that the index is representative of the stock market as a whole. The stock exchanges point out that the rise in the prices of shares in the forward market was 10 per cent less than for the stock market as a whole. At the steel counters, which were showing 'excessive inclination towards speculative activities,' Tata Steel and Indian Iron had recorded a rise of 21 per cent to 22 per cent compared to the rise of 22·6 per cent in the Reserve Bank of India equity index. Similarly, the average prices of shares produced by the stock exchanges in their joint memorandum in support of their thesis and in reputation of official hypotheses show that the average rise in the prices of cash shares from January to June 1969 was 32·3 per cent compared to the rise of only 20·3 per cent in the prices of shares on the forward list. This means that the rise in prices of cash scrips in Bombay was 59 per cent higher than the rise in forward scrips.

Comparative figures of frequency distribution according to rise and fall of prices of cleared and non-cleared securities during January-June, 1969, show that there were 74 securities under the cleared category recording an average rise of 20.3 per cent, as against 200 securities in the second category recording the higher rise of 32.3 per cent. Only one scrip out of 74 on the forward list recorded a rise in price of more than 70 per cent, as against 16 scrips out of 200 on the cash list. There was, too, a single scrip on the forward list showing a 100 per cent rise in prices, while there were as many as five such scrips on the cash list.

As regards 'cornering', according to the Stock Exchange Bye-laws, a corner is created when 'a single interest or group has acquired such control of any security or secutities that the same cannot be obtained for delivery on existing contracts except at prices dictated by such interest or group'. Such cornering has not taken place in the Bombay Stock Exchange during the last quarter century. If large holdings are accumulated resulting in acquisition of management control, such cornering has happened more frequently in cash scrips than in the forward market.

So far as Indian Iron shares are concerned, a large number of shares have been acquired by a single powerful interest. These shares have, however, been paid for and actual delivery has been taken from the market of these shares. But purchases and sales of Indian Irons were made subject to a heavy special margin a year before forward trading was suspended. A deterrent special margin of more than 35 per cent is still in force. There is thus no 'corner' in Indian Iron shares, as they are actually available for delivery against outstanding sales.

Heavy Margin Deposits

So far as National Rayon shares were concerned, the stock exchange authorities had imposed heavy margin deposits throughout and, under a special scheme, the outstanding market position was considerably redistributed in the second half of 1968. But, in 1969, there was a bulk purchase of 40,000 5½ per cent National Rayon preference shares that carried voting rights for which the first offer was said to have been made by the seller to the managing agents of the company.

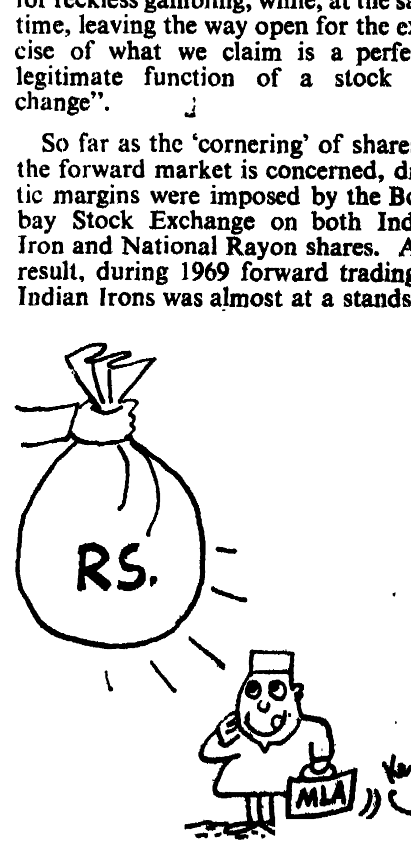
This purchase was outside the market and the price paid was 66 per cent higher than the ruling market rate. These two scrips have attracted widespread attention on account of the importance of the companies and because the shares are on the forward market. The group that has yet to establish its hold over National Rayon is already in control of Killick Industries Ltd and, through it, of the Killick group of companies. These and Bajaj Auto shares are cash, not forward, market shares. The Bajaj Auto shares were sold outside the market to the highest bidder, who happened to be the existing managing agent, at the extraordinary price of Rs 411.25 per share, or more than three times the ruling market rate! Another instance is that of Bagalkot Cement Co., where rival bidding by the existing management and the newcomer ended in a bulk sale of 1¼ lakh shares to the latter outside the market at a price of Rs 17.25 per share, which was double the ruling market rate.

It is generally accepted that the dealings for the clearing have 'a certain role to play in the life of the stock exchanges, to use the words of the Governor of the Reserve Bank uttered in Madras on July 14, 1969, two weeks after the suspension of business of clearing as ordered by the government. The fundamental object of the stock exchange is to impart sufficient marketability to securities so that they can be readily bought or sold at comparatively small variations in price.

Legitimate Function

We have in India a small investing public estimated at 15 to 20 lakhs as against 25 to 30 million in the USA. The daily transactions of this investing public of India are not adequate to make the market liquid or continuous. The Morison Committee has clearly stated the position realistically when it remarked: "It is now very generally recognised that reasonable facilities for speculative transactions are a necessary and healthy part of the machinery of a stock exchange, which provides a free market where securities may be bought or sold to the best advantage and without undue delay... We have taken the view that our efforts should be directed towards restricting as far as possible the facilities provided for reckless gambling, while, at the same time, leaving the way open for the exercise of what we claim is a perfectly legitimate function of a stock exchange".

So far as the 'cornering' of shares in the forward market is concerned, drastic margins were imposed by the Bombay Stock Exchange on both Indian Iron and National Rayon shares. As a result, during 1969 forward trading in Indian Irons was almost at a standstill,



Quit Poverty ?

while, under the special scheme devised for National Rayon, the concentrated bulk holding was substantially diluted and redistributed. The Bombay Stock Exchange had imposed in mid-June, 1969, heavy deposits on six active forward scrips impounding as margin as much as 75 per cent of any rise in price recorded during a clearing.

The joint memorandum of the stock exchanges also contains four proposals for strengthening the existing machinery for dealing with curbing, preventing and punishing what has been described as 'cornering'. But the question that is raised, in the light of the revelations of the actual situation, is why were not the two or three scrips on the forward market delisted and why was there a total prohibition in forward trading in the market?

Savings and Investments in the Plans

J.R. KUMBHAT

SINCE THE evolution of the concept of welfare state, developing countries are striving hard to achieve this goal by the active participation of the government in economic activities. One of the many initial problems in this regard faced by these countries is the large quantum of capital required to finance the socio-economic activities. Development works can be carried through by a rise in the rate of capital accumulation. which depends largely on the rate of savings channelled in productive fields. Thus, the welfare of a nation very much depends on savings. In developing countries the rate of savings and investments cannot be uniform as it differs with the rate of increase in population. According to Rostow, "With the historically, tyical population increase between one and 1½ per cent per annum, an investment rate of about 10 per cent is necessary to ensure a sustained increase in capital per head." The rate of poplation growth in India during the last decade, according to the Provisional Report of 1961 Census, was 2·1 per cent per annum. On the basis of Rostow's calculation an investment of 15 to 20 per cent of national income is essential for the sustained growth of India.

The Three Sectors

Vigorous efforts have been made in our country during the three Plan periods, to effect more savings and channel them to productive purposes. The volume of aggregate saving in India depends broadly on three sectors: (1) government, (2) corporate, and (3) individual or household sector. Saving from the government sector is derived not only from the surplus on account of administrative departments of the central and the state governments, but also includes the savings of local authorities, such government statutory corporations as Air-India, Life Insurance Corporation, etc., the departmental commercial undertakings such as the Railways, Posts and Telegraphs. etc., and the government registered companies such as the Hindustan Steel Ltd.

The corporate sector savings include surpluses from public and private limited companies such as banking companies, loan and investment companies, insurance companies, and other corporate institutions.

The individual or household savings include savings from urban and rural households, partnership firms and other non-corporate business (including agricultural sector) and private collectives such as temples, educational institutions and charitable foundations. Individual's saving is effected in two quite different ways through investments in tangible assets and through acquisition of financial assets. Savings of this sector have been estimated as the net change in assets—financial and non-financial—less net change in liabilities apart from revaluation of assets and liabilities transfer. While estimating the savings in individuals' sector, an NCAER study has considered the following financial assets: currency holdings, bank deposits with co-operative institutions, life insurance, provident funds, pension funds, small savings. government securities, and co-operative securities.

The proportion of each of these sectors in the total aggregate savings of the economy varies between different countries and at different times in the same country as is shown in Table I.

The table indicates that the individual savings, corporate savings and. government savings vary considerably from country to country. In such democratic welfare states as the United Kingdom, Sweden, France and Canada, the proportions of corporate savings are the highest which indicates that the countries are highly industrialized. In India, the proportion of corporate saving is the lowest and individual saving highest which shows that for welfare more industrialisation is required.

Low Ratio

According to the NCAER study titled *Savings in India During the Plan Periods*—the annual saving of the Indian economy, according to the direct estimates, has been approximately "Rs 1,300 crores, increasing from an average saving of Rs 816 crores a year during 1951-56 to Rs 1189 crores in the second Plan period. The indirect estimates, points to a higher figure, the corresponding magnitude being Rs 1616 crores, Rs 851 crores and Rs Rs 1248 crores, respectively. The average saving-income ratio for the 15-year period 1950-51 to 1964-65, was around 8.5 per cent according to direct estimates, while the average propensity to save computed from indirect estimates was higher at 9.3 per cent. On the basis of Rostow's calculations, and looking to the increase in the rate of population. as pointed out in the provisional report of 1961 Census. the mentioned ratio is much below the rate of saving required for the sustained growth of India. Further, although net saving has increased over the period, there was year-to-year, variation in the whole series. The average rate in the direct estimates of net domestic saving over the period was 5.4 per cent per annum. If allowance is made for price movements during this period, the growth rate was only around 3.2 per cent per annum, compared to an average growth rate of 4.7 per cent per year in real income. The average growth rates according to the direct estimates however were considerably higher close to 8 and 5 per cent per year respectively at current and constant prices."

The trend of savings in various sectors does not show consistency. The

TABLE I

PERCENTAGE OF CONSTITUENTS OF SAVINGS IN 1958

Items		India	Canada	France	Japan	Sweden	UK
Individual savings	..	84.7	60.4	37.6	56.3	20.1	34.8
Corporate savings	..	5.9	32.7	25.7	15.3	59.6	49.6
Government savings	..	9.4	6.9	36.7	28.4	20.3	15.6
TOTAL:	..	100 0	100.0	100.0	100 0	100 0	100.0

Source: Compiled from the *Year Book of National Accounts Statistics*, 1959, UN 1960, and *Britain—A Year Book*, 1961.

study of proportion of savings in various sectors in total savings and national income is necessary for the purpose, which is shown in Table II.

An adequate rate of growth is the crux of the problem of planning in an under-developed economy, which depends on the mobilisation of resources within the country, comprising all the sectors mentioned above. Here domestic saving does not mean total saving. Domestic saving is that part of country's output in a period that is not consumed but invested for further production. Total saving, on the other hand is the sum total of domestic savings plus foreign savings. Again there is a difference between gross domestic saving and net domestic savings. Domestic saving minus capital consumption allowance or depreciation is net saving. For the purpose of this study domestic saving from various sources in India during the three Plan periods may be examined.

The most important and biggest single sector contributing about three-fourths of the total saving is the individual or household sector. This sector has been divided into rural household sector and urban household sector. The savings in household sector is affected in many ways such as bank deposits, insurance, provident fund, corporate shares and securities, government securities, etc. One very important source of saving in this sector is hoarding in gold and other precious metals. This type of saving is not very important economically as it is treated as consumer durable and contributes practically nothing in the capital accumulation.

The average contribution of the rural and the urban household sector to total saving comes to nearly 23 per cent and 51.6 per cent, respectively, and to national income nearly 1.6 per cent and 4.1 per cent during the period of 13 years from 1950-51 to 1962-63. Further, of the total saving in the household sector itself, the contribution of rural household sector comes to nearly 31.4 per cent and that of urban household sector to 68.6 per cent. The most important factor to be noted here is that a very large proportion of the total population lives in rural area, yet contribution of rural saving to the total saving is less than half of the urban sector saving. It suggests that the saving in the rural sector depends upon a handful of persons who hold the major portion of the total output. In other words, with all the land reform measures taken by the central and state governments, the benefits have gone not to the masses but to a limited few.

Urban Sector

In urban household sector, the saving from the low and middle income groups, with their meagre income, rising prices and large number of dependents, must be very low. Of the total estimated population of India in 1963, which was 46,43,35,000, the total number of income-tax assessees of all classes during 1962-63, was 11,04,209 or roughly 2.4 per cent. Of the total number of assessees of all classes, the assessees in rural areas are very small in number as most of the big individual assessees, business and trading concerns and companies are located in urban areas.

The contribution of the household sector in the total saving in India is the highest, but the pattern however, is peculiar. A major part of the total saving is blocked in physical assets such as buildings, gold ornaments, silver, etc. and a very small proportion in financial assets which can be used for productive purposes. The volume and pattern of savings in the household sector during 1950-51 to 1962-63 are given in Table III.

Recently some healthy signs were visible as revealed by the study undertaken by NCAER. According to an occassional paper titled *Savings in India During the Plan Periods* published by the Council, "the share of financial saving however, has been on an in-

TABLE II

VOLUME AND PATTERN OF AVERAGE SAVING

(Rs Crores, at 1948-49 prices)

	Up to the end of first Plan (1950-51 to 1955-56)	Second Plan	1961-62	1962-63
Government Sector	110.3	161.3	312.1	356.0
(a) Per cent of total savings ..	19.7	16.4	25.7	27.4
(b) Per cent of national income	1.2	1.4	2.4	2.6
Domestic Corporate Sector	39.0	52.6	86.3	90.8
(a) Per cent of total savings ..	6.0	5.5	7.1	7.0
(b) Per cent of national income	0.4	0.4	0.7	0.7
Household Sector	476.7	775.2	813.8	853.9
(a) Per cent of total saving ..	74.3	78.6	67.2	65.6
(b) Per cent of national income	4.9	6.8	6.2	6.4
Total Saving	626.2	989.1	1212.2	1300.7
Per cent of national income ..	6.4	8.6	9.3	9.7

Source: Compiled from Table II, p. 323. RBI Bulletin, March 1965.

TABLE III

VOLUME AND PATTERN OF AVERAGE SAVING OF THE HOUSEHOLD SECTOR

(Rs crores, at 1948-49 prices)

Period	Financial Assets			Physical Assets		
	Average amount	% of household savings	% of national income	Average amount	% of household savings	% of National income
From 1950-51 to 1955-56	142.2	21.33	1.4	348.2	45.3	3.0
From 1955-56 to 1960-61	334.6	45.3	3.6	427.0	54.7	3.8
1961-62	420.6	51.7	3.2	531.0	57.5	4.2
1962-63	427.4	50.0	3.2	426.5	50.0	3.2
Average of the household savings during 1950-51 to 1960-61	476.8		5.0	775.2		6.8

Source: Compiled from table on Page 325 of RBI Bulletin, March 1965.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crease over the period under study. Savings in financial assets, which accounted for roughly 23 per cent in the first Plan period rose to 38 per cent during the second Plan period. The last four years of the series witnessed a further rise in financial savings to about 43 per cent. This increasing preference for financial assets on the part of the household is indeed a welcome sign in the context of economic development as in this process resources would be transferred to other sector for investment." But whatever change is visible it is mostly in the urban sector and rural sector yet lags much behind as its preference is still for precious metals or hoarding or ornaments.

Government Sector

The second important sector, from the point of view of saving, is the government sector. Government saving plays a very decisive and crucial role in a planned economy in mopping up excess purchasing power and in initiating and financing development programmes to achieve the goal of welfare state. Government saving is estimated as the surplus on current account of administrative departments operating surplus of departmental undertakings and retained profits of statutory corporations and registered companies. Government investment comprises capital expenditure on buildings, roads, bridges, and stocks.

The Reserve Bank of India study reveals that saving in the government sector has increased from as low as Rs 89 crores in the year 1953-54 to Rs 356 crores in the year 1962-63. Though government savings have increased as much as four times, yet there have been very wide fluctuations. Moreover, some unforeseen happenings, like Chinese aggression in 1962, Indo-Pak conflict in 1965, and unexpected and unprecedented famines reduce government savings to a great extent. As a result government savings are quite inadequate for the finances required for development. In spite of all the contingencies a major part of government savings comes from administrative departments and departmental enterprises and not from the government undertakings as confirmed by the Occasional Paper 16, published by NCAER, which states that "a study of the source-wise pattern of government savings suggests that significant proportion—roughly three-fourths—comes from the administrative departments and departmental enterprises. The contribution of the government registered companies has been negligible, but as most of these have not passed the construction stage yet, this is perhaps not surprising. The statutory corporations both financial and non-financials—have contributed on an average about a fifth of the sectoral savings." The average proportion of government sector saving to national income comes to nearly 1.5 per cent only. In a developing country such as India where the government progressively participates in economic activities to achieve the goals of welfare state the present government saving is completely inadequate to fulfil the financial needs of development plans. The result is that reliance has to be placed on external assistance to increase and sustain our rate of growth.

The domestic corporate sector includes joint stock companies in the private business sector, industrial credit and investment corporations and co-operative institutions. The domestic corporate sector showed very wide fluctuations in savings during the period of 13 years from 1950-51 to 1962-63. The average saving of this sector in proportion to total savings comes to 5.7 per cent fluctuating from as high as 12 per cent in 1951-52 to as low as 0.3 per cent in the very next year i.e. 1952-53. Its proportion in national income comes to below half a per cent, on an average 0.44 per cent, only.

In the corporate sector non-financial corporations, i.e. public and private limited companies, contributed more than 75 per cent of the corporate sector's net savings. Out of the total corporate net savings of Rs 212 crores and Rs 322 crores during the first and second Plan periods respectively, the non-financial corporations recorded a net saving of Rs 162 crores and Rs 267 crores respectively. Their average yearly savings during the first and second Plan comes to Rs 32.4 crores and Rs 53.4 crores, respectively. Looking to the vastness and population of India, its average yearly saving is very meagre to provide finance for further industrial development.

The above study of volume and pattern of savings in the different major sectors of the Indian economy does not indicate a trend in aggregate and sector wise saving-income ratio during 1950-51 to 1962-63. This study will give an idea of savings generated during this period and whether it was adequate to finance the investment that is considered essential and whether it is necessary to continue receiving external assistance to keep up the pace of development programmes. The Reserve Bank of India in its study of the problem has divided this period of 13 years in three parts of three years each and one of four years. The reason given for breaking down the whole period of 13 years into four separate parts are: "the fluctuations in year to year saving-income ratio are rather wide partly due to the methods adopted for estimating saving in the study."

The estimated average saving-income ratio during the period of 13 years is given in Table IV.

It is observed from this table that the sector-wise average saving-income ratio shows wide variations. In the government sector, from 14 per cent in period I, it fell to 10 per cent; threafter also there are fluctuations in the trend. The comparison of this percentage in the first Plan with that of the second shows a fall of 0.7 per cent in the second Plan. On the whole, during a period of 13 years the average saving-income ratio registered a fall of more than 1.5 per cent.

The domestic corporate sector shows a rise of nearly 5 per cent in the period II over the period I. But in the third period there was a steep fall of 12 per cent, then again a rise of nearly 9 per cent in the period IV. On the whole, the average of the period under study reached the same level as of 1950-51 which was 39.6. The comparison of first and

TABLE IV

AVERAGE SAVING-INCOME RATIO : AGGREGATE AND SECTORWISE

(Per cent)

	Pd. I 1950-51 to 52-53	Pd. II 1953-54 to 55-56	Pd. III 1956-57 to 58-59	Pd. IV 1959-60 to 62-63	First Plan Pd.	Second Plan Pd.	1961-62 & 62-63	1950-51 to 1962-63
Government sector ..	14.1	9.9	11.0	13.8	11.9	11.2	15.6	12.5
Domestic corporate sector	39.6	44.1	32.0	40.7	42.8	35.8	42.5	39.6
Household sector	3.5	6.4	6.4	6.7	5.1	6.7	6.4	6.0
(i) Rural household ..	2.2	2.4	2.3	2.3	2.3	2.3	2.2	2.3
(ii) Urban household ..	7.3	16.3	16.5	17.0	12.7	17.1	16.1	15.1
Aggregate saving-income ratio	5.0	7.7	7.9	9.3	6.6	8.5	9.5	7.3

Source: Reserve Bank of India Bulletin, March, 1965, p327.

second Plan shows that the average saving-income ratio fell by 7 per cent.

The household sector is the only sector which shows a rise of 2.5 per cent, while the other two sectors show a different trend. The average saving-income ratio in the second Plan period was 6.7 per cent, whereas in the first Plan it was 5.1 per cent that is an increase of more than 1.5 per cent.

One noticeable feature in this sector is the fact that the rural household sector shows more or less a constant trend in the average saving-income ratio, whereas the urban household sector shows constant rising trend. The buoyant increase of 9 per cent was between period I and period II. Many reasons may be attributed for the static trend in the average saving-income ratio in the rural househld sector.

First, it can be said that the impact of planning was not felt in the rural sector or it benefited not the masses but a limited few. Secondly, if there was a rise in income of the rural populace, earnest efforts must not have been made to mobilise saving through taxation or any other method, may be due to political expediency. Thirdly, whatever land reform measures have been taken by the state governments must not have been earnestly implemented to give relief to the actual sufferers. There may be other reasons also.

To achieve a better growth rate the saving-income ratio, greater efforts will have to be made to mobilise more saving or, in its absence, receive more external assistance to achieve the goals of welfare. It will not be out of place at this stage to peep into saving and investment during the given period of 13 years, that is from 1950-51 to 1962-63. The Reserve Bank of India Bulletin of March, 1965, gives the volume and rates of saving and investment as appear in Table V.

During the first Plan period both saving and investment registered good progress, though not without wide variations. Savings increased from Rs 483 crores in the first year of the Plan to Rs 1,019 crores in the last year of the Plan. Similarly, the saving-income ratio increased from 5.3 per cent to 9.7 per cent, which was more than envisaged under the Plan. The first Plan was the most successful Plan of all the three Plans of India and all the targets were exceeded.

The second Plan was formulated in a happy atmosphere of more than expected increase in the rates of saving and investment. But, it did not prove as successful as envisaged. According to the estimates given in Table V the rate of saving not only did not increase but in fact declined and was lower than in the first year in each of the succeeding three years.

On the other side, in terms of investment, the second Plan period was not so unsatisfactory. Estimates of savings and investments are not available for all the five years of the third Plan. The first two years included in Table V do not show any improvement.

A study of the trend over the period of each plan as a whole and in comparison with the following plan is useful. Table VI presents the trends in a summary form.

TABLE V

ESTIMATES OF AGGREGATE SAVING & INVESTMENT

(Rs crores, at 1948-49 prices)

Years		Saving	Per cent of national income	Net capital in flow	Investment (1+3)	Investment as per cent of national income
1950-51	..	503.2	5.7	—7.3	495.9	5.6
1951-52	..	483.2	5.3	+204.8	688.0	7.6
1952-53	..	393.3	4.2	—16.4	376.9	4.0
1953-54	..	540.9	5.4	—3.3	537.6	5.4
1954-55	..	817.4	8.0	+49.7	867.1	8.4
1955-56	..	1,019.2	9.7	+66.4	1,085.6	10.4
1956-57	..	1,047.2	9.5	+367.5	1,414.7	12.9
1957-58	..	762.7	7.0	+467.6	1,230.3	11.3
1958-59	..	861.1	7.4	+369.2	1,230.3	10.6
1959-60	..	1,009.2	8.5	+236.6	1,245.8	10.5
1960-61	..	1,235.2	9.7	+447.7	1,682.9	13.2
1961-62	..	1,212.2	9.3	+336.5	1,548.7	11.9
1962-63	..	1 300.7	9.7	+397.7	1,694.4	12.7

TABLE VI

SAVINGS, INVESTMENT AND INVESTMENT INCOME RATIO

(Rs crores, at 1948-49 prices)

Period	Saving (Annual average)	Saving-Income Ratio (%)	Investment (Annual average)	Investment income ratio (%)
First Plan	651	6.5	711	7.2
Second Plan	983	8.4	1,361	11.7
Third Plan (first two years)	1,256	9.5	1,622	12.3

Source : Based on the study of RBI Bulletin, March, 1965, p.329.

Role of External Assistance

A comparison of the saving-income ratio and the investment-income ratio throws light on the role of external assistance in promoting investment. During the first Plan period saving-income ratio was 6.5 per cent and investment-income ratio 7.2 which was slightly higher than the former. The difference between annual average of investment was Rs 60 crores only. Even this was met through withdrawal from the foreign exchange balances.

During the second Plan period, the gap between saving-income ratio increased to more than 3 per cent. Similarly, the gap between annual saving and annual investment increased to Rs 378 crores, whereas it was just Rs 60 crores in the first Plan period. In other words, the increase in the second Plan over the first Plan was more than six times. This divergence explains our increased dependence on external assistance as our saving falls very much short of our investment and to accelerate growth rate huge investments in the economy is necessary. This gap can only be covered through external financial assistance.

The respective ratios of 9.5 per cent and 12.3 per cent for the first two years of the third Plan, for which figures are available, prove the continuance of the same trend as in second Plan period. On the basis of Rostow's calculation, this percentage falls short of the required minimum of 15 to 20 per cent. If, therefore, the growth rate of the economy is to be increased, we have no alternative but to accept foreign assistance till we attain self-sustained growth. To me the reliance on our own domestic resources to attain self-sustained growth without any foreign assistance, which is so much talked about these days, does not appear practicable or feasible.

WINDOW ON THE WORLD

Development Without Employment

JOSSLEYN HENNESSY

I

THE PROBLEM

LONDON:

WHY DOES the level of urban unemployment rise in so many developing countries?

This is the problem analysed by Professor Gerald M. Meier of Stanford University in the latest *Quarterly Review* of the Banca del Lavoro (Via Vittorio Veneto, 119. Rome, Italy).

The problem is perplexing because unemployment has risen despite increased rate of investment and expansion in output. It is serious because unemployment intensifies social and political unrest. Even if national and per capita income rises, critics deny that the economy has developed if the absolute number of unemployed has at the same time increased.

The basic factors are that industrial employment has lagged behind growth in industrial output, behind growth of the urban population, and even behind the general growth rate of population. Only a portion of the annual increase in the urban-labour force has been absorbed in industry, whereas for all developing countries industrial output grew at approximately 7.5 per cent p.a. in 1948-61, employment in industry expanded by only 3.5 per cent p.a. Over the same period, the growth in urban population in all developing countries — approximately 4·6 per cent — also exceeded the growth of industrial employment. In many developing countries, despite creditable rates in aggregate growth, the rate of *open* unemployment [not (a) disguised, nor (b) underemployment] in urban areas is often up to 15 to 25 per cent. Why has planned industrialisation not led to greater employment?

II

WHY DEVELOPMENT PLANS FAIL

Many developing countries are labour-surplus economies since the supply of labour is greater than the demand for labour in the mofussil, and the productivity of labour in agriculture is low through the pressure of population. In such an economy industries should be able to attract all the labour that they need at a wage rate sufficient to cover the foregone real income that workers would earn in the mofussil, plus a differential to compensate for the higher cost of urban living. Further, if wage rates do not rise when productivity increases in industries, then capital formation and technical progress in industries should allow the share of profit in the national income to rise. To the extent that the profit ratio rises, there should then be capital-widening investment in industrises, so that the demand for labour continues to rise and more industrial workers are employed at constant real wages. Finally, the surplus labour from the mofussil will eventually be absorbed in urban industries; and after this point wages will begin to rise because labour will no longer be in unlimited supply from the villages to the towns.

Income Gap

These possibilities have not been realised because the real income gap between the modern and rural sectors has been much greater than needed to cover the cost of transfer and the higher costs of urban living, and the differential above rural income has continued to widen in most developing countries. The wage level in industry has risen despite open unemployment and before the surplus labour of the mofussil has been absorbed. It has also continued to rise, although the real income of subsistence farmers may even have been stagnant. The average real wage for industrial workers has commonly risen twice or thrice that of the average family income in the countryside.

The amenities and public services of the towns attract workers from the mofussil, but the strongest inducement has been this widening income differential between urban wages and rural income at the same time as rural employment opportunities have failed to expand. The growing rate of unemployment in the towns has been due to a premature increase in the industrial wage level combined with a premature increase in industrial employment. To a lesser extent, workers have been released from the labour-intensive indigenous handicraft industries which cannot compete with the new manufactures. "Rationalisation" in the tertiary sector has also tended to increase the supply of workers to urban-industries.

Real earnings in agriculture have not controlled the urban wage level. Urban wages have instead risen independently through the wage policies of the government and trade unions. Trade union pressures have increased in many countries, and many governments have yielded. Morever, the monopolistic structure of many product markets has made it easier to pass on higher wages by higher prices. In several countries, union pressure in dominant sectors — for instance, oil, copper, bauxite — has set a pattern of wage increases in other sectors.

Rapid Rise

Government policies have often directly raised urban wages. The public sector is frequently the largest, and also the only highly organised, wage employer. Public sector wages have risen rapidly and have set the pace for increases elsewhere.

In newly-independent countries, salary scales are still basically those paid to expatriates during the colonial period, but this scale does not now conform to the domestic supply of labour and puts pressure on the wage structure. Nor can the rising expectations from the extension of education be fulfilled. Further, minimum wage regulation has raised urban wages and distorted the total wage structure. The minimum wage in a dominant industry is frequently negotiated with the government on a basis of "ability to pay", but this wage spreads through other industries, which have not this ability. The increase in the minimum wage raises the whole scale since the wages received by most unskilled workers are near the current minimum wage. The generalisation of a minimum wage may then become unrealistic as it ignores traditional living standards and the effects on the wage structure as a whole. Workers who were only marginally useful, but nonetheless employed at the lower wage, become redundant when the minimum wage rises.

Minimum wage policies for unskilled labour make the skilled-unskilled wage differential too narrow in many African and Asian countries. Market forces of supply and demand determine wages for skilled labour, but demand rises slowly so that the market-determined wage for skilled labour also tends to rise slowly. If governments then insist that unskilled wages should increase independently of demand and supply in the unskilled market, unskilled wages increase faster

than skilled, and relatively low-wage labour becomes overvalued.

Governments have also found it convenient in effect to "tax" companies, especially foreign companies, through wage increases. The government's encouragement of higher wages may initially aim only at foreign companies in order to prevent "excess" profit repatriation and to raise the share of income for domestic factors, but higher wages in foreign enterprises spread higher wages to others.

Although government policies have supported urban wage increases, no attention has been given to agricultural wages, causing a widening gap between urban and agricultural wages. In Puerto Rico, for instance, the average rural wage earner received in 1952 one-half the average factory worker's earnings, but by 1962 the rural wage earner received only one-third In Uganda, wage payments for an unskilled urban worker averaged £125 in 1966, while cash income of farmers averaged only £25, and in cash and kind income was only £60.

Such a differential has attracted the disguised unemployed from the mofussil to industry, but at the same time it has kept industrial labour overpriced. Moreover, the differential between urban and rural wages has widened in face of the substantial and growing urban unemployment. With rising wage expectations it becomes increasingly difficult to absorb the excess supply of labour. Thus, those formerly in disguised unemployment in the mofussil have, in effect, transferred themselves into visible unemployment in industry.

Disproportionate Increase

Although sufficient capital-widening investment in industry absorbs the labour inflow, the actual result has been to substitute capital for labour in industry. Wage rates in most have risen more rapidly than productivity; in many, real wages have increased at rates comparable to those in advanced industrial countries. But whereas in the industrial countries real wages increase roughly in line with average national productivities, the rise of wages in the developing countries often implies an increase considerably faster than that in real national product per capita. In many African and Latin American countries, average real urban wages have been rising 4 to 5 per cent p.a., compared with increase in real product per capita of only 1 to 1.5 per cent per annum.

The consequence is the use of more capital-intensive production, either through labour-saving machinery in response to rising wages, or improvement in personnel and production-management practices, which trim the labour requirements per unit of output.

In Puerto Rico in 1954-61, both capital and output per worker doubled, i.e., there was a reduction in the use of labour relative to both capital and output because of improved production management. In Chile, Brazil, and Colombia, union pressure and minimum wage legislation have raised the wage rate above the opportunity cost of labour and induced investors to adopt excessively mechanised techniques.

Price Distortions

Capital-intensive production has been subsidised by other price distortions, especially through too low a rate of interest and too low a price for foreign exchange. When urban interest rates do not reflect the true scarcity of capital, so too is there a bias towards more advanced production techniques when the developing country's currency is overvalued, and the true cost of importing machinery is hence undervalued. Governments have also lowered the relative price of producers' capital equipment by allowing duty-free imports of equipment at preferential exchange rates, and making available foreign exchange for servicing loans from overseas machinery suppliers. When domestic enterprises are protected by tariffs and import quotas, the pressure to economise on capital is less than in competitive markets.

Industrialisation via import substitution has dominated expansion of the industrial-urban sector, and has generally been accompanied by inflation and an overvalued exchange rate. The result is a distorted price structure: too low a rate of interest in industry; too low a rate for foreign exchange; and too high a level of urban wages.

Employers tend to reduce their labour requirements when the government uses wage policies as a substitute for social legislation by requiring family allowances, pensions, licensing and health measures, or other social insurance benefits. Officially required fringe benefits and wage supplements may amount to as much as 30 to 40 per cent of the basic wage. When the employers are foreign enterprises, they are likely to imitate advanced techniques of production, which are appropriate for the factor supply of an advanced country but not for the labour surplus of a developing country. The tying of foreign aid to imports from the donor country also biases the recipient country towards capital-intensive projects The relative ease of securing suppliers' credit on the import of machinery has the same effect. Domestic tax laws may contribute to the bias when corporate taxes allow accelerated depreciation and investment.

Contrary to the expectations of most development plans, the expansion of industry has tended to slow down in many developing countries. Being based on import substitution, industries might be expected to have a substantial initial rate of growth as imports are replaced, but this may be once-for-all with little subsequent reinvestment unless the home market continues to grow, or import substitution can go on from the final stages of production down through the production process to the replacement of intermediate goods, or the import-replacement industry is able to gain a competitive advantage in export markets. Such opportunities for continual industrial expansion have not, however, materialised: thus capital-widening investment with an over-expanding demand for the surplus labour has not been sustained.

At the same time as domestic policies have subsidised capital-intensive import-substitution industries, they have imposed a levy on domestic agriculture. This has impeded expansion in labour-intensive output and a rise in rural employment, and has not allowed real wages in industry to rise via a fall in cost of living through increasing productivity in agriculture instead of through the rapid rise in money wages that has occurred.

III

SIX WAYS TO COUNTER RISING UNEMPLOYMENT

What are the possible correctives for rising unemployment?

(1) A reduction of urban-rural real income differential would help, but this is probably difficult to achieve; although efforts to restrain the rise in urban wages make sense, institutional and political considerations go against this. It is also questionable by how much the demand for labour would actually be stimulated by wage restraint, and even if the demand did increase, this could also raise the supply of labour *pari passu* as the expectation rose of obtaining employment in the urban high wage sector.

(2) If it is difficult to institute a "wages policy" that would increase urban employment, it is all the more important to emphasise the "supply side." When industry cannot absorb the inflow of workers from the mofussil, policies should seek to remove the

causes of the rural "supply push" and help to keep workers in the mofussil.

Industry must avoid what can be produced in the mofussil, e.g., village handicrafts should not be displaced if this entails wasteful use of capital by industry to produce an output which could be produced equally well by surplus labour. In Japan's successful development, both agriculture and village industry became more labour-intensive. There may also be scope for simple technology rural industries and the processing of agricultural materials.

Beyond this, however, a full-scale programme of rural development is needed to absorb and retain large amounts of manpower. If rural to urban migration is to be reduced, policies that have turned the terms of trade against the agricultural sector must be modified. Ceiling prices on foodstuffs, export taxes or restrictions on primary products, and tariff protection on industrial inputs and consumer goods are disincentives to agricultural producers and artificially increase the urban-rural differential. Efforts should also be made to disperse to the mofussil some of the public services now concentrated in urban areas (Would anyone notice it, I wonder, if the Government of India's Bureau of Public Information were set up in the Thar Desert?)

Important Factor

Perhaps the most important single factor influencing a developing country's ability to absorb a growing labour force into productive employment is whether a labour-using, capital-saving type of approach to agricultural development is followed (as in Japan and Taiwan). For most developing countries, the employment potential in rural modernisation can be greater than that of the modern urban sector, provided that they avoid implicit taxation of agriculture and "unduly labour displacing" measures in agriculture.

(3) It ought to be possible to devise a technology in the industrial-urban sector superior to the indigenous traditional technology but not as advanced and labour-saving as the modern technology that has been imported for the urban sector. The choice of a more labour-intensive technique may, of course, conflict with other investment criteria, in particular, the maximum absorption of labour may yield only a low return per unit of capital and not maximise the future rate of growth in output. At this point, however, it is important to devise new technology that is "capital-stretching", i.e. that decreases capital-intensity while maintaining the essential quality of the tool element in equipment without the superfluous labour-saving of advanced industrial technology.

(4) To lessen the bias towards relatively capital-intensive techniques, policy must remove the distortions in the price structure. A rise in interest rates, currency devaluation, and a restraint on the increase in urban wages lessen the attractiveness of capital-intensive techniques of production.

(5) As long as labour is induced to migrate from the mofussil and the manufacturing sector cannot absorb it in sufficient quantities, labour will have to seek employment in the tertiary sector. This has occurred in many developing countries, with employment in services and commerce actually rising more rapidly than in other sectors. In Latin America, for instance, employment in the tertiary sector rose by more than 4 per cent p.a. in 1950-65, while industrial employment increased only by 2.8 per cent p.a.; and the proportion of the labour force in service (excluding construction and utilities) rose from 24 to 30 per cent.

In order to provide employment, it is therefore advisable not to promote too rapid an increase in efficiency in employment practices in the services sector. The hand-cart-wallah should not be too readily replaced by the supermarket, cycles by taxis, nor a casual but large force by a permanent and stable but smaller force. The inefficient use of labour in the tertiary sector will not, of course, have the undesirable cost effects that would occur if this were done in the import-replacement or in exports.

It also follows that where the manufacturing sector in itself does not provide many jobs, a rapid growth of manufacturing capacity and output is important in creating more effective demand and thereby supporting more employment in commerce, transport, communications and services. This induced employment in complementary activities can be more significant than any direct contribution that industry can make to alleviate mass unemployment.

Birth Control And Education

(6) Finally, over the longer period, more attention must be given to the "supply side" in terms of population control and the "outputs" of the country's educational system. If unemployment is now aggravated by sheer numbers, its ultimate solution will in large part depend upon raising the productive skills and qualities of the masses. Efforts to reinforce family planning and human resource development should be redoubled.

Although the ultimate solution depends on population control and human resource development, the immediate requirements are for changes in domestic policies to stimulate more labour-intensive production both in agriculture and in manufacturing. In the immediate future, it can thus be expected that more developing countries will have to forsake longer in favour of shorter-term employment plans.

Reflections on U S Budget

H. R. VOHRA

WASHINGTON:

WADING THROUGH the pages of the first truly Nixonian budget, a thing which strikes most is that a good politician is the servant of circumstances as well as their master. He masters by serving and serves by mastering.

This observation is dictated by the memory that barely 10 years ago, Mr Nixon was an active participant in the rapidly unfolding international and national drama of the fifties which saw the exorcising of communism in the US and its containment abroad. He was a party to the McCarthean crusade and an architect of international commitments. As Vice-President, he served time with youthful zeal.

As President now, with undiminished enthusiasm, he is about to put his own policies of the fifties into reverse gear. That is what circumstances now demand. He again serves time faithfully, thereby mastering its implications.

This would appear to be the budget's deeper message. It is a long notice that the US has done its bit around the world and the world had now better look after itself. And if it doesn't, the US no longer seriously worries. It is rich enough and strong enough not to care.

The beginning of what appears to be a general withdrawal into its own national nest is glowingly revealed by the heavily sliced military budget, the shrunken aid demand and the diversion of resources into new domestic spheres. The validity of the shift needs to be judged against the prior decision to give up the surcharge on income tax and to raise no new taxes.

At the same time, it is impossible to forget that the US GNP is approaching

a trillion dollar figure. The US has decided, it would seem, to wallow in its own riches even if it sets an unhealthy example to the other prosperous countries. One hopes that they reject the implied message.

There is a truly dramatic change in military commitments both in terms of the finances sought to be committed and the defensive strategy accompanying them. The military budget, now $71 billion, represents the lowest share of Federal spending for defence in the last 20 years. It has been made possible by the closing of scores of foreign bases particularly in the Pacific and Asia, and a heavy cut in defence forces. The army strength will decline by 167,000, the marine corps by over 40,000 and the air force by over 40.000 in a single year.

Solid Pointer

It is a solid pointer to America's policy direction. The direction is homeward. It also means that there is a de-emphasis on conventional forces around the world and a proportionate increase in reliance on home-based strategic nuclear weapons. This is a reversal of the defence policy for which President Kennedy worked long and hard. He fostered an enlarged conventional shield besides the long nuclear sword. President Nixon is reverting to the Eisenhower period when the US relied on a strategy of massive nuclear retaliation.

Those who welcome US withdrawal from Asia as a sign of America's peaceful intentions or because they ideologically prefer Soviet or communist company as a vacuum filler are probably unaware of the state of the world in which we live and the delicate balance on which the dove of peace is perched. There are others who do not recognize the existence of power vacuum which American withdrawal threatens to deepen in and around the Indian Ocean or for that matter in and around the Himalayan dividing lines. It is a picture which only Peking could genuinely relish. For a large part of the world, it makes war more probable and a nuclear exchange more likely.

The President's budget message says: "The strategy of this Administration, as I stated at Guam, is based on the expectation that our allies will shoulder substantial responsibility for their own defence. With this posture, we can safely meet our defence requirements with fewer resources."

Shorn of subterfuge, it means that the US is lowering its commitments even to its allies. Mere friends would count for less. It is wise to assume that a revival of US military assistance to India in the event of a repetition of Chinese aggression would be exceedingly hard to come by. The kind of help which Mr Nehru sought and obtained would seem to belong to another age.

The quickening tempo of American disinterestedness oozes from President Nixon's disappointing proposal for foreign aid. His request, amounting to $1.8 billion, is 400 million dollars less than his own inadequate proposal for the current fiscal year. This is what developing world will get from a budget totalling $200 billion; that, too, if the President has his way, which is seldom the case. What actually happens is that the President suggests a figure. Congress slashes it down. The next year, the President asks for less. Congress reduces its allocation of the previous year. Thus aid slides down a slippery slope.

The *New York Times* remarks: "This means the United States will remain far below the international target of one per cent of gross national product for development assistance and inexcusably behind most other developed countries in the scope of its aid effort.

Hopeful Future

The paper sees some hope for the future in the President's decision to channel more American assistance through international institutions which will have to demonstrate that they can do a better job of aid and promote development more effectively "free of the political complications that have plagued American bilateral programmes." If this happens, the paper expects that the President and Congress would be disposed to donate more generously in the future.

The expectation is voiced on the ground that in 1971, US contribution to international institutions are proposed at $755 million, $44 million above 1970 and more than twice the level of only 4 years ago. Most of the increase is expected to be directed, however, to South America and would hardly give much joy to the rest of the world. What interests India most is the proposed continuation of US contribution to the International Development Association which provides long-term, low-interest financing to developing countries. The US contribution of $480 million over the 3-year period, 1969-71, is 40 per cent of the total subscription by industrialized nations.

In 1971, the United States will also make a contribution of $20 million to the Asian Development Bank for its ordinary capital, which finances development projects on banking terms. Legislation will be proposed to authorize the United States to contribute to the Bank's special funds which provide long-term low-interest development financing. Contributions of $25 million in 1970 and $35 million in 1971 are recommended.

A proposal now under consideration, (the budget discloses,) is expected to lead to an increase in subscriptions by the United States and a number of other countries to the World Bank's capital in harmony with certain increases that the United States and others are expected to obtain in International Monetary Fund quotas.

Multilateral Programmes

The US is also considering ways in which it might join with Latin American nations through expanded multilateral programmes to support development initiatives there. The Administration will submit proposals to Congress to authorize the US contributions. The budget tentatively provides $540 million for these and other proposals.

Within the reduced direct aid level emphasis is being given to lending to private enterprises in developing countries and strengthening multilateral frameworks for co-ordinating aid. US role in the economic planning of the developing countries is being reduced. Greater reliance is being placed on initiatives by the recipient countries. Likewise, aid will be increasingly directed to innovative technical assitance and to raising agricultural productivity besides lowering rates of population growth. The proposed layout of $492 million for West Asia and south Asia, says the new budget, will help maintain the growth momentum in India's and Pakistan's agricultural sectors by financing needed imports of fertilizer and other agricultural items. The hope is held out that industry too would receive some aid in 1970-71.

Considerable emphasis is laid on the newly formed Overseas Private Investment Corporation which provides easily accessible investor-service centre to help increase the flow of private capital to the developing world. But all these promises have to be read against the overall diminution in aid and as expressions of the official hope that Congress would accept without further slashing the budget proposals of President Nixon. There is little reason, however, to base one's calculations on this expectation. Nor is it wise to hope for enlarged outflows of private funds in the face of the prevailing tight money policy and high domestic interest rates.

The Nixon budget presages a reordering of national priorities. It com-

bines more than \$6 billion of reductions in defence and space programmes and the start of new domestic programmes in seven major areas that will cost \$3 billion in the first year and \$18 billion four years from now. These projects include welfare reform, revenue sharing with the states and efforts to curb environmental pollution.

In addition to pruning of defence and space, 40 other items suffered the same fate providing savings of over two billion dollars. The savings are diverted to accelerated spending on the war against narcotics and criminals. The Nixon budget earmarks 1.2 billion dollars for anti-crime and criminal justice programmes. This is an increase of about \$600 million over the year before the current one.

More and more will be heard as years pass about air and water pollution which America's rapidly advancing industrialisation has brought about and which science and industry must now cure. The President has asked Congress to authorize \$4-billion in grants to states and cities over five years for waste treatment plants. To this programme, the states and cities are expected to contribute \$6 billion of their own. This will constitute the \$10 billion nationwide clean waters programme.

The nation's poor people will also benefit from the budget. It promises increase in spending on their behalf and a sharply increased emphasis on Federal efforts to help them get more money without necessarily working additionally. The poverty budget for the nation's 24 million poor totals \$32.9 billion. An American poor is a person with a family of four, whose income is less than \$3,410 per year.

The Nixon administration is also placing heavy emphasis on the long range implication of its new decisions and priorities. Thus looking into the future, the budget expects that American labour force will swell from 85 million to 92 million by 1975. The gross national product would increase from \$960 billion in 1970 to nearly \$1,400 billion in 1975.

It took the country 190 years to reach a GNP of \$700 billion but it will double that amount by 1975, i.e. within 10 years. Mao has something to learn from the US in the art of leaping forward if it is not to be a leap in the dark.

Normalcy in Nigeria

HARDEV SINGH

WITH THE end of the 30-month-old civil war in Nigeria, a speedy recovery is expected in this most populated African country. Apart from the destruction of some development projects, this has caused a substantial reduction in development spending in the country in order to meet the cost of war. For instance, during the war the federal forces grew from 9,000 to 120,000. It also resulted in a serious drain on external reserves which were used in buying armaments. In some ways, however, the secession of Biafra made comparatively little difference to the overall economy of Nigeria. The Kainji Dam costing £87 million on River Niger, the biggest single project ever to be taken up in Nigeria, continued its progress and is already feeding power into the national grid. Similarly the £6 million second Lagos bridge was finished ahead of schedule. One should expect, therefore, that the state of normalcy in the Nigerian economy would be quite rapid. Nevertheless, it would be worthwhile to assess the present state of the economy in Nigeria and its future prospects.

Oil has been one of the vital issues in the war with the Biafrans who threatened to sabotage oil installations. Now that peace has returned, this industry is likely to experience boom. At the time of the outbreak of the civil war, Nigeria was producing around 600,000 barrels of crude oil a day. The output would have been around one million barrels a day but due to the war it dropped to around 550,000 barrels a day. The federal government proposes to develop the oil industry in a big way because Nigeria's oil is of good quality and it is strategically placed to supply western Europe. Nigeria thus is now emerging as one of the world's important oil producers.

Fourteen companies from six different countries are interested and engaged in exploration or development activities in Nigeria, either in partnership or on their own. The largest and most successful companies so far have been the Shell-BP Petroleum Development Company of Nigeria, a locally incorporated British-Dutch partnership, and Gulf Oil Company, a locally incorporated American company, the latter having commenced production and export in March 1965. Two other companies, the French Safrap and Nigerian Agip Oil Company (ENI-Philips Petroleum), had established production which was carried through Shell-BP's pipeline up to oil terminal at Bonny. But their activities were seriously threatened by the war. Early last year Mobil Producing announced its plan to install export facilities in 1970 for oil production which it established in its offshore blocks. It is likely that following the cessation of war certain other companies will also announce firm plans for producing oil in the next year or two.

Mineral Ores

Before oil assumed increased significance among mineral resources in Nigeria, it was tin ore that placed this country on the mining map of the world. The present production of tin ore (cassiterite) of around 12,000 tonnes is sensitive to price fluctuations in the international market. However, considerable activity is going on in Jos Plateau which has rich sub-basalt deposits. Columbite is another valuable mineral for Nigeria as 75 per cent of world output is produced in this country. Nigeria also produces coal in Enugo area, which is mostly used for railways and for generation of power, and the reserves are estimated to be around 30 million tonnes.

Industrial production in Nigeria has achieved considerable progress in recent years. At present there are more than 1,500 small, medium and large-scale units spread all over Nigeria employing nearly one million persons. Special attention has been directed towards cotton textiles, cement, light engineering, rubber products, plywood, paper, sugar, chemicals, fertilisers, breweries, leather tanning and processing, and food processing industries. There are more than 12 textile mills producing cotton yarn and textiles and in the near future more mills are likely to be set up. In that case, Nigeria might have to import raw cotton. At present, however, Nigeria consumes only a part of its total output of raw cotton. Nigeria is the sixth largest producer of natural rubber in the world; local factories producing tyres, shoes and other rubber goods are consuming a part of rubber output which is around 70,000 tonnes per year. There is sufficient suitable land for rubber plantations and production of natural rubber is likely to increase in the coming years.

Nigeria has at present only one paper mill which is managed by Birla Brothers. The unit is based on imported pulp, producing annually about 14,000 tonnes of paper and paper products. The total annual demand of the country is estimated at 25,000 tonnes but at the present rate of growth, it is likely to rise to 40,000 tonnes a year in the course

of next two years. The Federal Government of Nigeria is, therefore, already planning to set up a pulp plant and also a second unit for paper. The demand by the packaging industry is also expected to increase substantially and there will have to be an additional pulp plant sufficient to feed two paper mills with an annual capacity of 40,000 tonnes and an additional paper mill of 25,000 tonnes annual production capacity.

To help these industries flourish in the country, the Nigerian government has offered a wide range of incentives, which include income-tax holiday for periods extending up to five years, reasonable initial capital allowances and annual depreciation allowances, tariff concessions on imported raw materials, tariff protection and import quota restrictions on certain manufactured goods. The incentives have encouraged foreign private investment to a fair extent and with peace returning to this country, further development in this African market is bound to be substantial.

Agricultural Economy

Nigeria is still essentially an agricultural country with nearly 60 per cent of its gross domestic product being derived from this sector and around 80 per cent of population engaged in it. Again, agricultural exports by and large earned most of the foreign exchange for the country. Oil exports assumed some importance only recently. It may be pointed out that agriculture centres around a few crops such as cocoa, ground nut, palm oil and palm kernels, rubber and cotton. Nigeria is one of the leading producers of cocoa and virtually the whole crop is exported. Another important crop is groundnut, which is produced exclusively in the light sandy soils, with an annual output of around 800,000 tonnes. Nigeria is the largest producer of this commodity. Another cash crop of significance is palm — palm oil and palm kernel oil. The former is extracted from the flashy pericarp of the fruit and exported as palm oil. The nuts are cracked to obtain kernels which are exported and crushed in the importing countries to obtain palm kernel oil. Cotton is processed in northern Nigeria for export; only a part is consumed in the textile mills operating within the country. Tobacco development has also been encouraged in Nigeria and domestic production is sufficient for the two cigarette manufacturers.

The federal government recently set up a national advisory committee on agriculture to investigate and improve the diet of its population. It has recommended short-term and long-term programmes to eliminate malnutrition through development of protective foods, encouragement of organised marketing for foodgrains, establishment of nutritional education programme, organisation of a national seed multiplication schemes. Long-term measures include the improvement of animal resources, control of animal disease, organised marketing of livestock and livestock products and the encouragement of the fishing industry. Considerable emphasis is now being laid on the development of fisheries in order to exploit Nigeria's water resources. Fish ponds have been constructed and considerable assistance is given to the local people to improve fisheries' resources.

Common Market Drags Its Feet

E. B. BROOK

VIENNA :

THOSE IN the west of Europe who expect and those in the east who fear that the Common Market will speedily become a fully co-ordinated institution can now relax. When it comes down to money matters and giving up a little national sovereignty, the Market's political leaders are past-masters in the art of procrastination and hair splitting.

These characteristics have just been discouragingly displayed in Brussels in two areas of Market policy. The French have stalled again, over the powers of the European Parliament, which, meeting in Strasbourg, is little more than a debating society, over the Common Market's budget.

Of all the Market's members Holland is the most anxious to see the European Parliament get a little more authority over the budget. At The Hague Market summit in December the Dutch managed to get their partners to agree that after 1975 the European Parliament would get the right to dispose of as much as one percentage point of the value-added tax now in the process of being adopted by Common Market countries. Even this small percentage point would probably produce about £1 billion a year.

To this proposal the French government, impelled by a Gaullist group, now objects that the European Parliament is being given a power that the French Assembly does not have — the French constitution gives power to initiate increased spending to its government, not to its Parliament. The Dutch have contended that without a Market acceptance of this financial power for the European Parliament they would be unable finally to accept the extended guarantees of financial aid for the disposal of farm surpluses demanded by the French as a condition for their sanction for talks on possible British membership. The argument continues in Brussels, a proof — if any were necessary — that progress towards agreed, united action is not only slow but subject to many relapses.

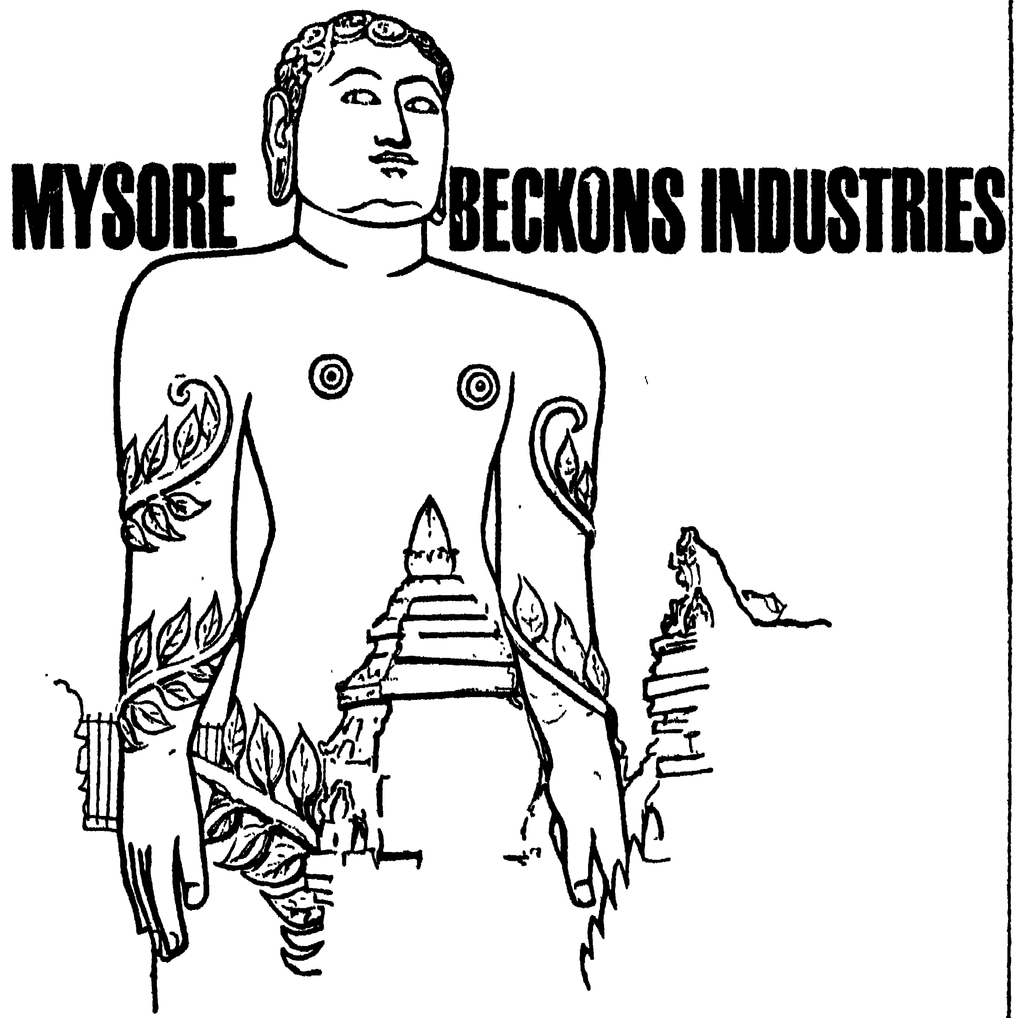
The second area of Market policy in which progress is cautious and almost unwilling is over monetary co-operation. The first cautious steps have just been taken to implement some of the

Eastern Economist 25 Years Ago

FEBRUARY 23, 1945

Commenting on the Railway Budget last week, we commended Sir Jeremy Raisman for wisely recognizing the principle that the railways should treat the high cost of war-time purchases and works as part of working expenses. But will he display the same wisdom in dealing with the larger problems of the national economy? In about a week's time, when he presents his last and the country's seventh war budget, he will have a golden opportunity of displaying that wisdom, an opportunity which will not recur and which he cannot throw away without risk, first, to his reputation, and more important, to the welfare of the national economy.

Let Sir Jeremy pause, at this stage, on the path of mounting monetary expansion and oppressive taxation he has taken all these six years and look back on the disastrous consequences he has brought about. The budget of the Government of India alone has risen from an expenditure of less than Rs 80 crores in 1938-39 to Rs 352 crores in 1944-45. Actually, in the first eight months of 1944-45 alone, defence expenditure has amounted to Rs 235½ crores, Rs 87 crores in excess of the corresponding figure of last year and expenditure exceeded revenue by Rs 118 crores, despite an improvement of Rs 55 crores in revenue.


MYSORE BECKONS INDUSTRIES

proposals in the plan drawn up a year ago by Raymond Barre, Vice-President of the Market's Executive Commission, to provide safeguards against new outbreak of currency turmoil. Carried to their logical conclusion, Barre's proposals should lead eventually to a monetary union.

Whether it will ever do so is uncertain. All that has been agreed to so far is the installation of machinery for short-term mutual financial assistance between Market members, improved economic co-operation and consultative procedures. The member governments are now committed to supplying up to £1 billion of three-month credits, renewable for a second three-month period, for use by any member in balance of payments difficulties. The financial machinery is now operational.

These short-term credits are intended to cushion difficulties caused by waves of speculation such as have plagued west Europe in the last two years and to prevent constant accidents in parity changes. The cushioning is necessary to prevent confusion which could lead even now to the break up of the Market. The principal contributors to the credit fund are, of course, France and West Germany with about £150 million each and Italy with some £100 million. The three Benelux countries between them put up only another £100 million — a fact which illustrates the relative weakness of the Dutch voice against that of France in Market decisions.

The Market governments are also trying to harmonise their national economic policies and seek, as it were, safety against one another by two sets of guarantees. The first, short-term guarantees, have been accepted, providing that member countries will consult each other on major economic measures they plan to take. If any member fails to consult in this way, any other member country can demand the consultation.

Long-Term Agreements

But over long-term agreements on economic policies and guidelines for a five-year period (not dissimilar to east Europe's five-year plans) there is as yet no agreement, though it is hoped that key economic indicators will have been set by the autumn. Several countries, especially West Germany, were critical of growth targets suggested by the Market's Executive Commission for the 1971-75 period. A further part of the Barre monetary co-operation plan, for medium-term monetary assistance, has been shelved for the time being. The richer members, especially West Germany, again, which would have to bear the heaviest burden under the scheme, are reluctant to embark on any more ambitious pooling of reserves than the short-term plan provides.

While these hesitations by the Market's bigger members are understandable, they obscure the fact that the present step towards monetary co-operation within the Market is no more than tentative. There is still far too intense national unwillingness among members to make anything approaching a real European community possible.

If the Common Market is to become an effective factor in the economic and industrial fields and not merely a co-operative and exclusive group of prosperous nations, it will have to concentrate more effectively on its desired overall rate of increase in gross national products, on the determination of the Market budget and the formulation of fiscal and income policies which will need to be discussed and decided by the Market community as a whole. These objectives require discussion in the near future and eventually definition in the form of rules and directives to which the Market's governments and central banks would have to comply.

Until this more formalized and imperative unity and co-operation have been achieved any discussion of European reserve funds or a unified European currency (if that were ever necessary) is not only irrelevant but an illusion.

Trade Winds

U. K. FINANCIAL AID

TWO AGREEMENTS granting further British aid to this country were signed recently in New Delhi. They were signed by the British Minister of Overseas Development, Mrs Judith Hart, who visited this country recently and by Mr P. C. Sethi, Minister of State in the Ministry of Finance. The first of these agreements, a new loan of £9 million (Rs 16·2 crores) is available for the import of maintenance items from Britain by both public and private sector industries. This loan is granted on the same soft terms as all recent British loans (a repayment period of 25 years inclusive of a grace period of seven years, with no interest or other charges). The loan is designed for almost immediate disbursement and will help to restore the level of disbursements of British aid in 1969-70 to that reached in recent years. The loan is additional to the £ 38 million (Rs 68·4 crores) of British financial aid to this country which the United Kingdom "pledged" at the meeting of the Aid India Consortium and for which loans have been signed this year. It brings the total British aid for which loans have been signed in 1969-70 to £ 47 million (Rs 84 crores). Taken with the £ 16 million (Rs 28·8 crores) maintenance loan already signed, the conclusion of this new loan increases to £ 25 million (Rs 45 crores) the sum of money allocated this year for the purchase from the United Kingdom of maintenance goods such as spare parts, raw materials and semi-manufactures.

With the present loan, aid agreements to the value of £ 411·5 million have been signed between Britain and India, and it is estimated that of this amount nearly 90 per cent will have been disbursed by the end of the present financial year. Among projects established with British aid may be mentioned the Durgapur Steel Plant and the Heavy Electricals Plant at Bhopal. Some new projects, including two fertilizer plants, are under discussion between the two governments. Also signed recently was an agreement gifting £ 1·2 million (Rs 2·2 crores) to this country for the purchase of wheat and other foodgrains, principally from Argentina. This British gift fulfils part of the obligation accepted by the UK as a signatory of the 1968 Rome Food Aid Convention to provide 225,000 metric tonnes of grain, or the cash equivalent, each year for three years as aid to the developing countries. This is the second year in which the United Kingdom has given aid to India under the Convention.

WALTER SCHEEL IN DELHI

The West German Federal Foreign Minister and Deputy Prime Minister, Mr Walter Scheel, visited this country from February 13 to 16, 1970. During Mr Scheel's stay in this country, meetings were held by him with President V. V. Giri, Prime Minister Indira Gandhi, Foreign Minister Dinesh Singh and other leaders.

INDO-U.K. TECHNOLOGICAL GROUP

The Indo-British technological group has decided to meet in London later in the year to draw together groups of industrialists in different sectors for detailed discussions about further investments and technological collaboration, particularly in the direction sought by the Government of India. The group met in this country recently. Mr Fakhruddin Ali Ahmed, Minister for Industrial Development, and Mrs Judith Hart, Britain's Minister of Overseas Development, headed the Indian and the British delegations at the talks. In the course of discussions with the group, prospects of Indo-British joint enterprises in third markets were recognised. It was pointed out that already an encouraging start had been made in this direction.

S.T.C. BRANCH IN W. GERMANY

The State Trading Corporation is likely to open a branch office in West Germany. A seven-member delegation recently toured West Germany to find out the best location for the branch and also ways to increase exports of non-traditional goods to that country.

INDO-IRAN CO-OPERATION

The Preparatory Committee of the Indo-Iran Joint Commission on Trade, Economic and Technical Co-operation met recently. Mr Jamshid Ashrafi, Iran's Deputy Minister of Economy, came as a leader of seven-member team to these discussions. Mr K. B. Lall, Secretary, in the Ministry of Foreign Trade, headed the Indian team which included senior officials of the various ministries of the union government. At the meeting, the progress in regard to the implementation of the various decisions taken by the Joint Commission at Tehran in June 1969 were reviewed.

SOVIET AIDED PROJECTS

A detailed review was made recently of programmes for expansion of Soviet-aided projects in this country during the fourth and subsequent Plans at a meeting between the Soviet delegation, headed by Mr S. A. Skachkov, Chairman of the State Committee for Foreign Economic Relationships, the USSR, and Professor D. R. Gadgil, Deputy Chairman, and Mr R Venkataraman, Member (Industry), Planning Commission. The possibility of fuller collaboration between the two countries in the context of proposed adjustments in the fourth Plan and in later five-year Plans was also discussed. References were made in this connection to development of capacities in iron and steel, aluminium, fertilizers, oil and oil refining in the fourth and subsequent Plans.

Mr Venkataraman gave a broad picture of the proposals for expansion of the production capacity of Bokaro steel plant from 1·7 million to 4·0 million tonnes phased in such a manner as to secure an output of 2·5 million tonnes by 1974. Similarly, it was proposed to raise Bhilai steel plant's capacity with the possibility of obtaining additional output within the fourth Plan itself. Mr Venkataraman also said that it was proposed to build steel plants in other parts of the country to meet the long-term requirements of steel. Referring to the Korba aluminium project, Mr Venkataraman stated that action had been initiated for production of alumina, simultaneously undertaking work for a smelter plant. It was also proposed to raise production capacity of fertilisers in the fourth Plan.

Mr Skachkov pointed out that while he welcomed the proposal to increase Bokaro's production capacity to 4·0 million tonnes, it would be possible to realise this only after the fourth Plan. Whether Bokaro could achieve production capacity of 2·5 million tonnes by 1974 would have to be examined. He added that Soviet assistance will be available in building capacity for production of aluminium at Korba. Mr Skachkov referred to the shortage of capacity in refractory plants and suggested that Soviet assistance could be made available to India in this field. It was stated on behalf of the Commission that provision had been made for addition to refractory capacity and that this would be further discussed with the concerned ministries.

FORWARD TRADING

An informal meeting of the presidents of the stock exchanges was held recently in Bombay. The presidents of all the stock exchanges regretted the inordinate delay in lifting the ban on forward trading in shares. They felt that in a mixed economy requirements of capital are a prerequisite to rapid development of industry. The stock exchange members by their efforts mobilised every year Rs 75 crores as capital for the private sector. The functioning of an active capital market is, therefore, of vital importance to develop industry. But the continued suspension of forward trading in shares has brought about stagnation and listlessness in the stock market. In the last 7-1/2 months equities have gone down by more than 15 per cent and the new issue market, which was trying to attain buoyancy, has again become sluggish. Investors, have suffered due to lack of liquidity in securities. The presidents of stock exchanges hoped that the Anjaria Committee would submit its report soon.

LICENSING POLICY

The union cabinet is said to have approved the principles of the new industrial licensing policy. According to this, industries involving an outlay of Rs 5 crores and less will stand delicensed. In other words, the ceiling of investment for purposes of licensing which stands at Rs 25 lakhs at present will be raised to Rs 5 crores provided no foreign exchange is involved. In the case of industries requiring foreign exchange, those involving a foreign exchange component up to 10 per cent, and an outlay of Rs 1 crore will also be delicensed. Industries involving higher foreign exchange investment will continue to be licensed. The 20 business houses identified by the Monopolies Commission will have to apply for licences irrespective of the quantum of investment. The long-awaited decision of the Cabinet is expected to be officially announced shortly.

INDIANISATION IN FOREIGN FIRMS

More and more Indians are getting higher levels of appointments in foreign-owned and foreign-controlled companies. The volume of Indian employment at these levels has been increasing with the growth and diversification of the economy. According to employment returns as on January 1, 1969, these firms employed 9,346 persons with monthly salaries of over Rs 2,000. Of these, 7,802 or 83·5 per cent were Indians. A year earlier, the percentage was 80·1. Ten years earlier still, in 1958, out of a total of 5,417 employees, only 1,384 or 25·6 per cent were Indians. The returns also reveal that while, during this period of eleven years, the total number of employees doubled from 5,417 to 9,346, the number of Indian employees increased sixfold (1,384 to 7,802). The number of non-Indians dropped to less than two-fifths. Data as on January 1, 1968, revealed that the staff receiving salaries of up to Rs 2,000 a month had already been practically Indianised, with Indian employees holding 99·3 per cent of such posts. This group has therefore been left out of the data as on January 1, 1969. In the monthly salary group of Rs 2,001 to Rs 3,000 the number of Indians increased from 4,410 to 4,662 between January 1968 and 1969 while the number of non-Indians declined from 196 to 173. The share of Indians increased from 95·7 per cent to 96·4 per cent. In the next

higher salary group of Rs 3,001 to Rs 5,000 the number of Indians increased from 2,161 to 2,537 and that of non-Indians declined from 528 to 425, the percentage share of Indians increasing from 80·4 to 85·7. There was also a decline in the number of non-Indian employees receiving monthly salaries exceeding Rs 5,000, from 1,027 at the beginning of 1968 to 946 at the beginning of 1969. The number of Indians receiving similar salaries rose from 475 to 603. Expressed in percentages, the increases in the share of Indians in this salary group were 25·7, 31·6 and 38·9 at the beginning of 1967, 1968 and 1969 respectively.

LUBE REFINERY

The Vice-President of India, Mr G. S. Pathak, stated recently that this country at present had about 80 joint industrial projects in other countries. International co-operation as a pattern of economic development had come to stay, he added. He was formally opening the Rs 18-crore Lube India refinery which is a joint Government of India and Esso project. Economic progress, like peace, he felt, was indivisible and the elimination of poverty through international co-operation was one of the prerequisites for the maintenance of world peace. The importance of the Lube plant lay in the fact that at full production it would save the country foreign exchange worth about Rs 12 crores, the amount being spent on import of lube base stocks.

TRANSPORT DEVELOPMENT COUNCIL

Mr K. Raghu Ramaiah, Minister for Parliamentary Affairs, Shipping and Transport, inaugurated the eighth meeting of the Transport Development Council on February 12. Ministers from states and union territories in charge of roads, road transport, and inland water transport including Andhra Pradesh, Gujarat, Haryana, Punjab, Jammu and Kashmir, Kerala, Orissa, Rajasthan, Goa, Daman and Diu, Himachal Pradesh, and Pondicherry attended the meeting. The Transport Development Council, which consists of 47 members, discussed problems pertaining to taxation on road transport, octroi, financing and organization of road transport industry, development of transport in metropolitan cities, rural roads and development of inland water transport.

RAILWAY EARNINGS

According to the annual report of Indian Railways for 1968-69, the passenger traffic for the first time in 16 years registered a drop of 1·98 per cent in terms of passengers originating. The total originating freight traffic (204 million tonnes), however, recorded an increase of 3·79 per cent over the previous year. Against an initial anticipation of 7 million tonnes of additional originating revenue earning goods traffic during 1968-69, the actual materialisation was 8·4 million tonnes. The gross traffic receipts of Indian Railways were Rs 898·84 crores during the year against Rs 818·14 crores in the previous year. Ordinary working expenses were Rs 636·78 crores against Rs 588·22 crores in 1967-68. The increase in working expenses over the previous year reflected the enhancement of the rates of dearness allowance from September 1, 1968, the merger of dearness allowance with pay from December 1, 1968, the revision of running allowances from December 1, 1968, the increase in the price of diesel oil from May 1, 1968, and of coal from July 1, 1968 and heavier expenditure on repairs of track, bridges etc. damaged by floods and breaches. After meeting all charges, including Rs 95 crores contributed to the depreciation reserve fund, the net revenue was Rs 7·86 crores short of the dividend of Rs 150·67 crores due to the general revenues. This shortfall in the contribution to the general revenues was met from the railway revenue reserve fund. New lines aggregating 740 route kilometres were opened to traffic during the year. In addition, 31 kilometres of lines were converted from metre-gauge to broad-gauge, 260 kilometres of existing lines were doubled and 350 route kilometres were electrified on 25 KV AC system. The running of super express trains was stabilised and their speeds increased by providing diesel traction. The container service remained popular with trade during the year.

The approximate gross earnings of Indian railways during December, 1969 were Rs 81·14 crores, an increase of about Rs 7.78 crores over the gross earnings in December previous year. The total gross earnings for April-December show an increase of about Rs 46·26 crores over the corresponding period of the year earlier. Revenue earning freight traffic in December, 1969 was approximately 15·01 million tonnes, an increase of about 270,000 tonnes over December previous year. Total revenue earning tonnage lifted by the Railway in the first nine months of the current financial year was 5·27 million tonnes more than the tonnage lifted in the corresponding period of previous year. In the first nine months of the current financial year, passenger traffic has increased by 5.73 per cent over the corresponding period of the last financial year.

PRODUCTION OF RAILWAY AXLE BOXES

The union government desires to encourage creation of additional indigenous capacity for railway axle boxes with spherical, cylindrical and tapered roller bearings for the use of the Indian railways, as the existing capacity is inadequate and does not cover the full range of the axle box requirements. Applications in the prescribed form were, accordingly, invited from existing licensed manufacturers of ball and roller bearings for grant of licences under the Industries (Development and Regulation) Act, 1951, for establishment of such a capacity by substantial expansion of existing undertakings or inclusion of 'new articles', for the manufacture of axle boxes, complete with various types of roller bearings. All such applications are to reach the Secretary, Ministry of Industrial Development, Internal Trade and Company Affairs (Department of Industrial Development L. P. Section) before April 30, 1970.

CEMENT RESEARCH INSTITUTE

The President of India will lay the foundation-stone for the Cement Research Institute of India, a co-operative national venture with the active participation of the Government of India through the Council of Scientific and Industrial Research and the entire cement industry in the country, on March 25, 1970.

C.C.I.R. DELIBERATIONS

Mr Satya Narayan Sinha, union Minister of Information, Broadcasting and Communications stated that the deliberations of the XII Plenary Assembly of the International Radio Consultative Committee (CCIR) have given renewed hope to the new and developing countries for the growth of their telecommunication systems and training of personnel. He added that during the last fortnight the delegates had been extremely busy in debating technical aspects of radio communication, starting from very low frequencies used for radio beacons to super high frequencies used in satellite communication, as well as from very low powers for communication equipment to very high powers for broadcasting. They had to deal

with a number of problems relating to organisational matters of the CCIR, which required amicable solution. In the field of technical assistance for the new and developing countries, he indicated that the participants had made considerable progress.

KATHUA-JAMMU RAIL LINK

The 75-kilometre broad-gauge rail link between Kathua and Jammu is expected to be completed by March 1972. The project is estimated to cost Rs 10 crores. Work on it began a year ago. Land has been acquired and earthwork is in progress. Construction of bridges including the major ones across rivers Ujh and Basantar and of buildings and staff quarters has also been taken in hand. A sum of Rs 2 crores has already been spent on the project. The first rail link with the State of Jammu and Kashmir was established in 1966 when a broad-gauge line was constructed between Madhopore in Punjab and Kathua in Jammu at a cost of Rs 2·5 crores. The line involved the construction of a bridge over river Ravi.

JUMBO JETS

Dr Karan Singh, Minister for Tourism and Civil Aviation informed the members of the Consultative Committee of Parliament of his Ministry that this country was among the few countries which were getting ready for receiving the Jumbo jet traffic. Perspective planning had been done for development of the four international airports at Bombay, Calcutta, Delhi and Madras to meet the requirements of large-capacity Jumbo jets and high-speed supersonic traffic during the seventies. Work on Rs 1-crore project for extension, renovation and face-lift of the Bombay airport, the Minister added, will start shortly and will be completed by March 1971, when Air-India's Jumbos are received and go into operation and the international airlines also start operating through Bombay with their Jumbo jets. Work on the Calcutta airport's new terminal building, equipped for the high-density traffic expected to be generated by the Jumbos, had already been completed at a cost of Rs 2 crores. The international airlines will start operating from the new building by the end of next month when all airlines offices would have shifted into the new building. The old airport building will then be renovated and used exclusively for domestic traffic. The air terminals at Palam and Madras are already being extended for the increased air traffic they were expected to receive.

The Minister indicated that the decision to purchase seven Boeing 737 for Indian Airlines, had been taken after very careful evaluation of the various aircraft. The augmentation of the Indian Airlines fleet will increase its profitability. The two airlines were expected to generate enough profits to pay for the expansion of their fleets. Air-India's flight kitchen, the Minister added had already been completed at Bombay, whereas the one at Delhi was nearing completion. Various promotional efforts in projecting a new image of this country abroad, the Minister pointed out, were starting to yield good results.

CALTEX REDUCES CRUDE PRICES

Caltex has fallen in line with the other two foreign oil companies, Esso and Burmah Shell, in cutting its crude import price to £ 1·28 per barrel. This decision was conveyed on February 13 by the company to the Ministry of Petroleum. With all the three foreign oil firms reducing the price of crude, the saving in foreign exchange will come to around Rs 3·5 crores in a year.

EXPORT OF PLASTICS

Exports of plastic products are likely to touch Rs 9 crores by the close of the current financial year and might reach Rs 50 crores by 1973-74. The exports reached Rs 6·20 crores in 1968-69 from Rs 7·5 lakhs in 1955. A target of Rs 8 crores has been fixed for the current year. The main markets for Indian plastic products are in the west Asian countries, Arabian Gulf, Africa and south-east Asian countries. Since products are comparable in quality and price to the best in the world, they have found markets even in the UK, West Germany, the USSR, Holland, Czechoslovakia, Yugoslavia, the USA and Australia.

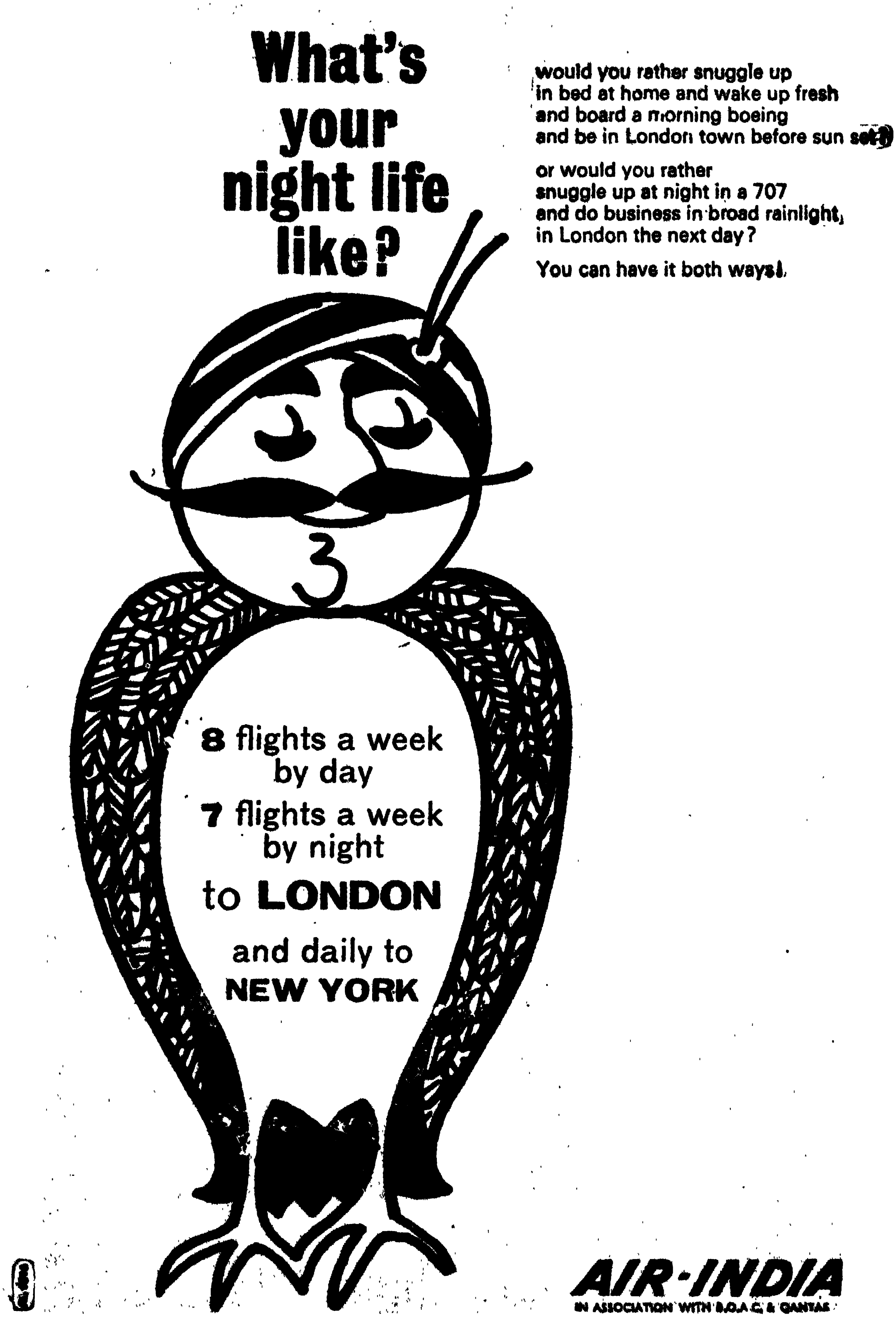
NAMES IN THE NEWS

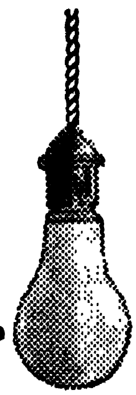
Mr Dayanand Chandulal Kothari of Madras has been unanimously elected to be the President of the Federation of Indian Chambers of Commerce and Industry for the year 1970-71. He will assume charge from the retiring president, Mr Ramnath A. Podar, on March 16.

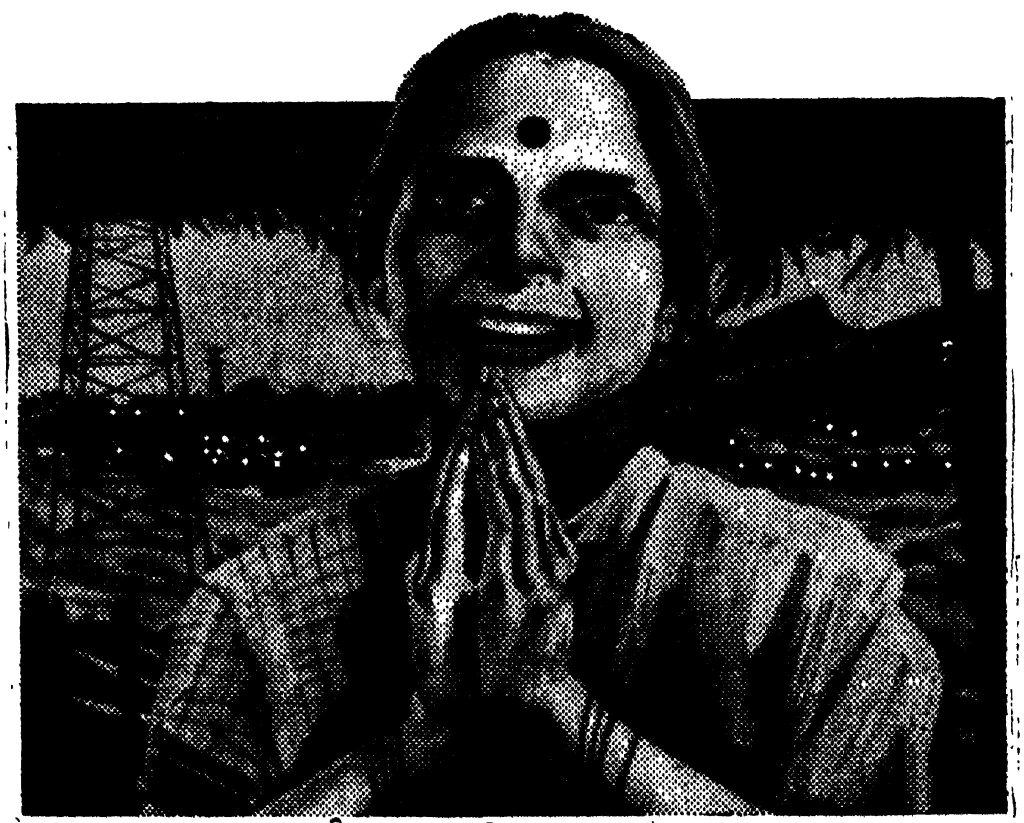
Mr T. A. Pai, who till recently was the Chairman and Custodian of Syndicate Bank has been appointed chairman of the Life Insurance Corporation of India, following the retirement of Mr M. R. Bhide from the LIC.

Mr David Porter, export executive with the British mining firm of Victor Products (Wallsend) Ltd, arrived in this country on February 15 for a three-week tour of the country's coal-mining industry. The object of his tour is to promote sales of his firm's products made at Wallsend and also by their manufacturing associate Jardine & Victor Ltd, of Calcutta.

Mr P. F. Prevett, head of the training and information section of Britain's Tropical Stored Products Centre, also arrived in New Delhi on February 15 at the start of a two-week tour of this country to study the country's training and research programmes for grain storage and discuss possible training facilities for Indian officials in Britain. He will attend a seminar on "surveillance of crop pests and pesticidal hazards during their control which is being convened by the Uttar Pradesh Institute of Agricultural Sciences at Kanpur.


What's your night life like?
would you rather snuggle up
in bed at home and wake up fresh
and board a morning boeing
and be in London town before sun set?
or would you rather
snuggle up at night in a 707
and do business in broad rainlight,
in London the next day?
You can have it both ways!
8 flights a week by day
7 flights a week by night
to LONDON
and daily to NEW YORK
AIR-INDIA
IN ASSOCIATION WITH B.O.A.C. & QANTAS





Company Affairs

BIRLA COTTON

THE INTERNATIONAL Finance Corporation is joining with Birla Cotton and Malaysian investors to establish a textile mill in west Malaysia. The new business is expected to have an annual capacity of some 7·3 million square yards of suiting, shirting and dress material, of natural and synthetic fibre blends. It will be located in the Mak Mandin industrial estate in Penang province and will employ some 900 workers. A 5·9 million dollar company, India-Malaysia Textiles, has been incorporated in Malaysia to build and operate the plant under the management of the project's Indian sponsor, Birla Cotton Spinning and Weaving Mills Limited. A large part of the new company's equity capital will be provided by a share offering to the Malaysian public. Birla Cotton provides a major portion of the company's equity, and will be responsible for management. Its equity investment will be applied toward the purchase of textile machinery manufactured in India. The project thus will benefit India as well as Malaysia. IFC's investment amounts to approximately 1·5 million dollars, consisting of a long-term loan of 1·25 million dollars, and a share subscription the equivalent of 250,000 dollars. IFC, it may be pointed out, differs from other members of the World Bank group in that it invests only in private enterprise.

UNION CARBIDE

The directors of Union Carbide India Ltd, have proposed to issue 4,095,000 bonus shares of Rs 10 each to the holders of 8,190,000 existing equity shares of Rs 10 each in the ratio of one-for-two. These bonus shares shall rank in all respects *pari passu* with the existing equity shares except that they will not be entitled to any dividend in respect of the company's accounting year ending December 25, 1969. The bonus issue is subject to the consent of the Controller of Capital Issues

UNITED CARBON

The directors of United Carbon India Ltd, have proposed a maiden equity dividend of 15 per cent tax free for 1969. The company's working during the year reveals a gross profit of Rs 182·45 lakhs as against Rs 116·04 lakhs in the previous year. After providing Rs 34·45 lakhs for depreciation, Rs 33 lakhs for development rebate reserve and Rs 26 lakhs for taxation, the net profit works out at Rs 89 lakhs. Last year, a debit balance of Rs 39·18 lakhs had to be adjusted and the balance carried forward was Rs 4,348. After bringing in this amount, the amount available for disposal this year is Rs 89·04 lakhs, from which the directors have proposed to transfer Rs 89 lakhs to general reserve leaving a sum of Rs 3,974 to be carried forward. Equity dividends will absorb Rs 23·30 lakhs and paid from the general reserve.

BIRLA JUTE

The Controller of Capital Issues has sanctioned the issue of bonus shares by the Birla Jute Manufacturing Company Limited. The ordinary shareholders registered as on Feb. 27, 1970, will be entitled to the issue and allotment of bonus shares in the ratio of one-for-one.

I.C.I.C.I.

The Industrial Credit and Investment Corporation of India Ltd, has produced favourable results for 1969 with a higher net profit of Rs 160·39 lakhs against Rs 143·69 lakhs for the previous year. The directors have proposed to maintain the equity dividend at 9 per cent. The net profit has been arrived at after providing for depreciation, taxes and doubtful debt.

OIL INDIA

The management of Oil India Limited, and the Assam Petroleum Mazdoor Union, have signed an agreement on January 31, 1970, at Duliajan, field headquarters of the company, revising the pay scales. A workman in the lowest grade will now have an initial basic pay of Rs 120 per month as against Rs 40 per month before. The maximum basic pay in the highest grade has been raised to Rs 545 per month from the previous maximum of Rs 325 per month. Agreement also liberalises other facilities provided, such as over-time, house allowance, dearness allowance, etc. with corresponding increases in the retirement benefits. These increases in the basic minimum and the maximum in the highest grade, along with other enhanced facilities, will entail an additional annual expenditure of Rs 80 lakhs to the company. Effective from December 1, 1969, the agreement will remain in force for the next four years. As a gesture of goodwill, the company has agreed to pay all workmen, an amount equivalent to a month's basic wages, subject to an agreed minimum, in the form of *ex gratia* payment. The Chairman of Oil India Limited, Mr Dev Kanta Borooah, has in separate messages to the management and the workers, congratulated them on this amicable settlement. He has expressed the hope that this will further strengthen the already existing cordial relations between them.

HINDUSTAN HOUSING FACTORY

Hindustan Housing Factory Ltd, has declared a higher dividend of eight per cent for the year ended March 31, 1969, against six per cent paid during the preceding three years. The company has registered an increase in production at Rs 1·93 crores during 1968-69 against Rs 1·83 crores in 1967-68. Gross profit was around Rs 20·80 lakhs and net profit around Rs 7·57 lakhs. Allocations include : depreciation Rs 3·5 lakhs, income-tax Rs 10.57 lakhs, interim relief Rs 1 57 lakhs, bonus Rs 1·32 lakhs, reserve for bad and doubtful debts Rs 1·33 lakhs and gratuity Rs 58,781. The dividend absorbs Rs 3·91 lakhs. The chairman has disclosed in the annual report that the Railway Board has placed an order for the manufacture and supply of 120,000 broad-gauge monoblock prestressed concrete sleepers. The company secured this order against stiff competition from leading civil engineering organisations. The company has also secured the prefabricated portion of work for the Badarpur thermal power project estimated to cost Rs 32·8 lakhs. With a view to diversifying its manufacturing activities, the company recently tendered, in association with the National Projects Construction Corporation Ltd, for the manufacture of large diameter high pressure prestressed pipes for the Bangalore water supply scheme in response to the global tenders invited by the Bangalore Water Supply and Sewerage Board. The manufacture of pipes is estimated at Rs 5 crores and is to be done by the company at a factory to be set up near the project site. The company has also been awarded the work of five pedestrain over-bridges in Delhi by the Municipal Corporation. The estimated cost of the work is Rs 8 5 lakhs.

STATE BANK OF INDORE

The State Bank of Indore during 1969 has recorded a net profit of Rs 2·63 lakhs. After transferring Rs 5·40 lakhs from contingency fund and after making some adjustments, the amount available for disposal is Rs 8·06 lakhs. The directors have transferred Rs 53,000 to reserve fund and Rs 25,000 to staff welfare fund and provided Rs 4·45 lakhs for bonus to staff. The equity dividend has been maintained at Rs 8 per share which will asbsorb Rs 2·80 lakhs. Desposits have increased to Rs 26·32 crores from Rs 22·71 crores, advances to Rs 16·88 crores from Rs 15·93 crores, reserve fund and other reserves to Rs 22·07 lakhs from Rs 21·52 lakhs and investments to Rs 7·31 crores from Rs 6·95 crores. Advances to agriculture increased from Rs 28 lakhs to Rs 1·60 crores in terms of limits sanctioned and from Rs 5 lakhs to Rs 66 lakhs in terms of outstandings. Limits sanctioned to small-scale industries increased from Rs 2·08 crores to Rs 4·52 crores and outstandings from Rs 1 03 crores to Rs 2·38 crores.

STATE BANK OF TRAVANCORE

The State Bank of Travancore has recorded during the year ended December 1969 a net profit of Rs 5·68 lakhs, which together with balance of Rs 0·02 lakh brought forward from the previous year and Rs 7·70 lakhs drawn from contingencies account to meet part of the refund on adjustment of subsidy for 1968, makes Rs 13·40 lakhs. The directors have declared a dividend of six per cent (taxable) per share of the bank for the year 1969. The bank's advances reached a maximum level of Rs 44·71 crores during the year under review as against Rs 30·84 crores in the previous year. The Bank's policy on credit allocation laid more emphasis on increased assistance for meeting the genuine credit needs of industrial exports, small-scale industries, agriculture and food procurement operations. Financial assistance to priority sectors such as small-scale industries, agriculture and exports increased by more than 200 per cent during the year. The Bank introduced several new schemes to meet the different types of credit needs of small businessmen and self-employed professionals.

DENA BANK

The working of Dena Bank for 1969 has shown a marked progress with its total deposits, excluding inter-bank deposits, rising to Rs 130 59 crores from Rs 109·95 crores, an increase of 18·8 per cent. The total number of deposit accounts moved up by 83,000 to 685,000. The bank's total advances have also risen by 19·3 per cent from Rs 71·05 crores to Rs 84·68 crores compared with a 14·4 per cent increase in total bank credit for all scheduled commercial banks. The number of loans and advances accounts doubled in 1969 to 25,000. Advances to small-scale industries have gone up from Rs 9·06 crores to Rs 14·26 crores, the number of accounts in this category rising from 1,736 to 3,587. Advances to small-scale industries now account for 16·7 per cent of the total advances, and include loans of Rs 43·5 lakhs to transport operators. The bank's operations in the agricultural sector have achieved progess with its outstandings rising by nearly five times to Rs 4·32 crores covering 10,696 accounts compared with 91·34 lakhs covering 1,434 accounts in 1968. The agricultural advances now account for over 5 per cent of the total advances. Advances to exporters have increased from Rs 3 crores to Rs 5·72 crores and those to retail trade amount to Rs 4·32 crores. These four priority sectors account for 33·4 per cent of the total advances. The bank opened 44 branches in 1969 of which 32 were in centres with a population of less than 10,000. This year, it plans to open at least 46 branches in

unbanked towns and at centres allotted to it under the branch allocation scheme, besides normal expansions.

STATE BANK OF BIKANER

The State Bank of Bikaner and Jaipur has recorded a net profit of Rs 17 92 lakhs for the year ended December 31, 1969, against Rs 15·99 lakhs in the previous year. The directors have decided to maintain the dividend at 7 per cent, which absorbs Rs 5·60 lakhs, same as last year. A sum of Rs 3 60 lakhs has been transferred to reserve fund. After making other allocations, a sum of Rs 5,000 is carried forward against Rs 13,000 brought in.

INDIAN ALUMINIUM

The directors of Indian Aluminium Company Limited, have recommended payment of the following dividends (subject to deduction of shareholders' income-tax at source). (i) a dividend of Rs 6 25 (less income tax payable by the company) on each preference share and (ii) a divinded of Re 0.85 on each fully-paid ordinary share, the divinded on partly-paid ordinary shares being in proportion to the amount actually paid up.

A high level of demand of 1969 enabled the company's plants to work at full capacity and Sales at Rs 264.3 million were 25 per cent above the 1968 figure of Rs 210.9 million. Net profit was Rs 26·1 million after providing Rs 20.5 million for development rebate and Rs 5.9 million for corporate taxes. Corresponding figures for 1968 were: net profit at Rs 22 6 million after the provision of Rs 1·1 million for development rebate and Rs 19.9 million for corporate taxes.

The volume of sales was 42,997 tonnes of aluminium products, 27 per cent above the 1968 figure of 33,932 tonnes. This volume of sales was made possible by high levels of production at the plants, by a reduction of the relatively high levels of stocks at the start of the year and by a small contribution from the new Belgaum smelter.

The Belgaum smelter was commissioned on schedule on October 22, 1969. Two potrooms with an annual capacity of 20,000 tonnes are already in operation. It is expected that the third potroom (10,000 tonnes) will be in operation in April. Construction and engineering work on the Belgaum alumina plant is progressing to meet the scheduled date of commissioning in mid-1970. The site for the sheet-rolling mill has been selected at Taloja near Bombay in Maharashtra. Preliminary work has commenced at the site. Major items of equipment have been ordered.

In April 1969, the company announced an issue of Rs 70 million 7½ debenture stock 1980/84 for public subscription. The issue was payable in two equal instalments in May and December 1969 and it was fully underwritten by leading financial institutions, banks and brokers in our country.

ELPRO INTERNATIONAL

The working results of Elpro International, during the year ended September 30, 1969, have resulted in a reduced gross profit of Rs 19.55 lakhs as against Rs 24.59 lakhs in the previous year. Its sales have marginally declined to Rs 1.51 crores from Rs 1.55 crores. Out of the gross profit, the directors have provided Rs 7.62 lakhs for depreciation and Rs 11.05 lakhs for development rebate reserve. After bringing in Rs 1.30 lakhs, the surplus of Rs 42·379 is carried forward. The director state in their annual report that the year under review was beset with numerous difficulties. Sales of lightning arrestors, which constitute a large portion of the total turnover, were affected at reduced prices fixed by the government resulting in proportionately lower profits. Costs of materials increased substantially during the year. The company expects to commence shortly commercial production of high tension cut-outs. It made the first shipment of an export order of calrod heating elements to the Philippines in November, 1969. The company hopes to increase its exports in the current year.

INDIAN OXYGEN

Mr A. K. Sen, Managing Director of Indian Oxygen, struck a note of cautious optimism in his statement to the shareholders at the annual general meeting in Calcutta on February 12. Mr Sen, said that uncertainly about the economic policy of the government was hampering industrial growth in the country. He also mentioned the unstable political condition in West Bengal. Despite all this, and accute shortage of certain categories of steel, he said industrial production continued to show a rising trend which was reflected in the company's sales during 1969. Mr Sen said the company's technical developments had been commendable, especially with regard to mild steel electrodes and stainless steel electrodes.

GODAVARI SUGAR

The working results of Godavari Sugar, during the year ended May 31, 1969, have resulted in a lower net profit of Rs 4.45 lakhs as against Rs 18·77 lakhs. Its sales have increased to Rs 7·57 crores from Rs 6.33 crores. The net profit has been arrived at after providing Rs 10·41 lakhs for depreciation, Rs 49,395 for development rebate reserve and Rs 10 lakhs for taxation. The directors have proposed an equity dividend of three per cent for the year.

T.W.A.

Preliminary unaudited earnings for Trans World Airlines in 1969, including net earnings from its wholly-owned subsidiary, Hilton International Co., were $ 19,766,000 or $ 1·63 per share of common and common equivalent shares, it was announced recently by Charles C. Tillinghast, Jr., Chairman of the board. Airline revenue for the year, exceeding a billion dollars for the first time in the company's history, totalled $ 1,098,000, an increase of 15·8 per cent over those of 1968. Preliminary net earnings from airline operations in 1969 were $ 11,862,000. Hilton International net earnings for the year were $ 7,904,000, an increase of 27·4 per cent over 1968 earnings of $ 6,202,000. Passengers flying aboard Trans World Airlines, 747 superjets will not only be flying the world's largest commercial aircraft, but they will also have more space than any other major competitive airline can offer. First to start 747 service on United States routes on February 25, TWA's interior configuration for the new generation jetliner will feature only 342 seats. Of this number 58 are in the two first class sections and 284 in the three economy sections.

CAPITAL AND BONUS ISSUES

Consent has been accorded to fourteen companies to raise capital amounting to over Rs 2·95 crores. Twelve of them are to issue bonus shares totalling over Rs 1·60 crores and the amount of bonus shares ranges between Rs 70,400 and Rs 36,62,200. The consents are valid for 12 months. The following are the details :

Ganges Printing Ink Factory Ltd, Calcutta, has been accorded consent to capitalise Rs 16,50,000 out of its general reserves and issue fully paid equity shares of Rs 100 each as bonus shares in the ratio of three for every two equity shares held.

Hico Products Private Ltd, Bombay, has been accorded consent to capitalise Rs 11,64,100 out of its general reserves and issue fully paid equity shares of Rs 100 each as bonus shares in the ratio of three for five equity shares held.

Bright Brothers Private Ltd, Bombay, has been accorded consent to capitalise Rs 5,00,000 out of its general reserves and issue fully paid equity shares of Rs 100 each as bonus shares in ratio of two for five equity shares held.

Ellora Engineering Company Ltd, Madras, has been accorded consent to capitalise Rs 4,00,000 out of its free reserves and issue fully paid equity shares of Rs 10 each as bonus shares in the ratio of two for three equity shares held.

Coles Cranes of India Ltd, Calcutta, has been accorded consent to capitalise Rs 26,00,000 out of its general reserves and issue fully paid equity shares of Rs 10 each as bonus shares in the ratio of thirteen for every twelve equity shares held.

Harshadray Private Ltd, Bombay, has been accorded consent to capitalise Rs 70,400 out of its general reserves and issue fully paid equity shares of Rs 100 each as bonus shares in the ratio of one for fifteen equity shares held.

Zenith Steel Pipes Ltd, Bombay, has been accorded consent to capitalise Rs 35,00,000 out of its general reserves and issue fully paid equity shares of Rs 10 each as bonus shares in the ratio of one bonus share for every three equity shares held.

Grindwell Abrasives Ltd, Bombay, has been accorded consent to capitalise Rs 36,62,200 out of its general reserves and issue fully paid equity shares of Rs 100 each as bonus shares in the ratio of 19 for 20 equity shares held.

North Bihar Sugar Mills Ltd, Calcutta, has been accorded consent to capitalise Rs 5,00,000 out of its general reserves and issue fully paid equity shares of Rs 10 each as bonus shares in the ratio of one for three equity shares held.

The Commercial Ahmedabad Mills Company Ltd, Ahmedabad, has been accorded consent to capitalise Rs 8,66,250 out of its general reserves and issue fully paid equity shares of Rs 250 each as bonus shares in the ratio of one for five equity shares held.

India Filters Manufacturers Private Ltd, Madras, has been accorded consent to capitalise Rs 1,14,000 out of its general reserves and issue fully paid equity shares of Rs 10 each as bonus shares in th ratio of three for five equity shares held.

Camphor & Allied Products Ltd, Bombay, has been accorded consent to capitalise Rs 10,00,000 out of its General reserves and issue fully paid equity shares of Rs 100 each as bonus shares in the ratio of one for five equity shares held.

Madras Spinners Ltd, Palghat (Kerala), has communicated to government of its proposal to issue capital of Rs 15 lakhs under clause 5 of the Capital Issues (Exemption) Order, 1969, in equity shares of Rs 100 each for cash at par. The proceeds are to be utilised for starting the second phase of the factory.

Siporex India Ltd, Bombay, has been accorded consent to issue capital of Rs 120 lakhs consisting of Rs 90 lakhs in equity shares and Rs 30 lakhs in 9·5 per cent redeemable preference shares at par. The proceeds are to be utilised to finance the setting up a factory at Mundhwa, Poona, for manufacture of light weight concrete slabs in collaboration with Messrs Internationella Siporex AB, Stockholm, Sweden, to whom equity shares of Rs 12·5 lakhs will be issued—Rs 5,62,500 for technical know-how and Rs 6,87,500 for supply of equipment. Equity shares of Rs 25 lakhs would be subscribed by promoters etc. for cash and the balance to the public for cash. The company will enter the capital market with a public issue of 52,500 equity shares of Rs 100 each and 30,000 (9·5 per cent) redeemable cumulative preference shares of Rs 100 each at par. Out of the public issue, 5,000 equity shares will be taken up by the Maharashtra government. The subscription list will open on February 12 and close on February 24 or earlier but not before February 16.

RECORDS AND STATISTICS

Renationalisation of 14 Banks

THE PRESIDENT, Mr V.V. Giri, promulgated an ordinance on February 14, renationalising the fourteen major Indian banks whose nationalisation had been set aside by the verdict of the Supreme Court on February 10, 1970. The ordinance makes renationalisation effective from July 19, 1969, and the chairmen of the nationalised banks have been re-appointed as custodians. Full text of the ordinance follows:

An Ordinance to provide for the acquisition and transfer of the undertakings of certain banking companies in order to serve better the needs of development of the economy in conformity with national policy and objectives and for matters connected therewith or incidental thereto.

WHEREAS Parliament is not in session and the President is satisfied that circumstances exist which render it necessary for him to take immediate action;

NOW, therefore, in exercise of the powers conferred by clause (1) of article 123 of the Constitution, the President is pleased to promulgate the following Ordinance :—

CHAPTER I

(1) This Ordinance may be called the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1970.

(2) The provisions of this Ordinance (except section 21, which shall come into force on the appointed day) shall be deemed to have come into force on the 19th day of July, 1969.

2. In this Ordinance, unless the context otherwise requires,—

(a) "appointed day" means the date of promulgation of this Ordinance;

(b) "banking company" does not include a foreign company within the meaning of section 591 of the Companies Act, 1956;

(c) "commencement of this Ordinance" means the 19th day of July, 1969.

(d) "corresponding new bank" in relation to an existing bank, means the body corporate specified against such bank in column 2 of the First Schedule;

(e) "Custodian" means the person who becomes, or is appointed, a Custodian under section 7;

(f) "existing bank" means a banking company specified in column 1 of the First Schedule, being a company the deposits of which, as shown in the return as on the last Friday of June, 1969, furnished to the Reserve Bank under section 27 of the Banking regulation Act, 1949, were not less than rupees fifty crores;

(g) "Schedule" means a Schedule to this Ordinance;

(h) words and expressions used herein and not defined but defined in the Banking regulation Act, 1949, have the meanings respectively assigned to them in that Act.

CHAPTER II

Establishment of corresponding Bank

Transfer of the Undertaking of Existing Banks

(1) On the commencement of this Ordinance, there shall be constituted such corresponding new banks as are specified in the First Schedule.

(2) The paid up capital of every corresponding new bank constituted under sub-section (1) shall, until any provision is made in this behalf in any scheme made under section 9, be equal to the paid up capital of the existing bank in relation to which it is the corresponding new bank.

(3) The entire capital of each corresponding new bank shall stand vested in, and allotted to, the Central government.

(4) Every corresponding new bank shall be a body corporate with perpetual succession and a common seal with power, subject to the provisions of this Ordinance, to acquire, hold and dispose of property, and to contract, and may sue and be sued in its name.

(5) Every corresponding new bank shall carry on and transact the business of banking as defined in clause (b) of section 5 of the Banking Regulation Act, 1949, and may engage in one or more forms of business specified in sub-section (1) of section 6 of that Act.

(6) Every corresponding new bank shall establish a reserve fund to which shall be transferred the share premiums and the balance, if any, standing to the credit of the reserve fund of the existing bank in relation to which it is the corresponding new bank, and such further sums, if any, as may be transferred in accordance with the provisions of section 17 of the Banking Regulation Act, 1949.

4. On the commencement of this Ordinance, the undertaking of every existing bank shall be transferred to, and shall vest in, the corresponding new bank.

5. (1) The undertaking of each existing bank shall be deemed to include all assets, rights, powers, authorities and privileges and all property, movable and immovable, cash balances, reserve funds, investments and all other rights and interests arising out of such property as were immediately before the commencement of this Ordinance in the ownership, possession, power or control of the existing bank in relation to the undertaking, whether within or without India, and all books of accounts, registers, records and all other documents of whatever nature relating thereto and shall also be deemed to include all borrowings, liabilities (including contingent liabilities) and obligations of whatever kind then subsisting of the existing bank in relation to the undertaking.

(2) If, according to the laws of any country outside India, the provisions of this Ordinance by themselves are not effective to transfer or vest any asset or liability situated in that country which forms part of the undertaking of an existing bank to, or in, the corresponding new bank, the affairs of the existing bank in relation to such asset or liability shall, on and from the commencement of this Ordinance, stand entrusted to the chief executive officer for the time being of the corresponding new bank, and the chief executive officer may exercise all powers and do all such acts and things as may be exercised or done by the existing bank for the purpose of effectively transferring such assets and discharging such liabilities.

(3) The chief executive officer of the corresponding new bank shall, in exercise of the powers conferred on him by sub-section (2), take all such steps as may be required by the laws of any such country outside India for the purpose of effecting such transfer or vesting, and may either himself or through any person authorised by him in this behalf realise any asset and discharge any liability of the existing bank.

(4) Notwithstanding anything contained in sub-section (2), on the commencement of this Ordinance, no person shall make any claim or demand or take any proceeding in India against any existing bank or any person acting in its name or on its behalf except in so far as may be necessary for enforcing the provisions of this section or except in so far as it relates to any offence committed by such person.

(5) Unless otherwise expressly provided by this Ordinance, all contracts, deeds, bonds, agreements, powers of attorney, grants of legal representation and other instruments of whatever nature subsisting or having effect immediately before the commencement of this Ordinance and to which the existing bank is party or which are in favour of the existing bank shall be of as full force and effect against or in favour of the corresponding new bank, and may be enforced or acted upon as fully and effectually as if in the place of the existing bank the corresponding new bank had been a party thereto or as if they had been issued in favour of the corresponding new bank.

(6) If, on the date of commencement of this Ordinance, any suit, appeal or other proceeding or whatever nature is pending by or against the existing bank, the same shall not abate, be discontinued or be, in any way, prejudicially affected by reason of the transfer of the undertaking of the existing bank or of anything contained in this Ordinance but the suit, appeal or other proceedings may be continued, prosecuted and enforced by or against the corresponding new bank.

(7) Nothing in this Ordinance shall be construed as applying to the assets, rights, powers, authorities and privileges and property, movable and immovable, cash balances and investments in any country outside India (and other rights and interests arising out of such property) of any existing bank operating in that country if, under the laws in force in that country, it is not permissible for a banking company, owned or controlled by Government, to carry on the business of banking there.

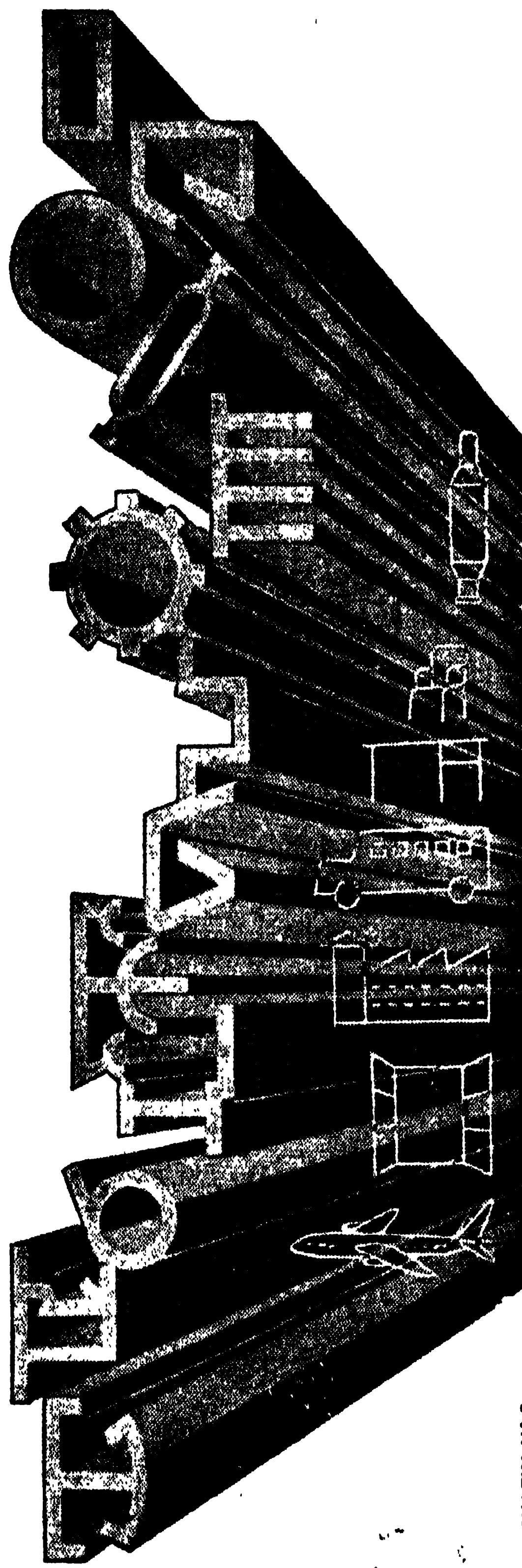
CHAPTER III

PAYMENT OF COMPENSATION

6. (1) Every existing bank shall be given by the Central Government such compensation in respect of the transfer under section 4, to the corresponding new bank of the undertaking of the existing bank as is specified against each such bank in the Second Schedule.

(2) The amount of compensation referred to in subsection (1) shall be given to every existing bank, at its option,—

(a) in cash (to be paid by cheque drawn on the Reserve Bank) in three equal annual instalments, the amount of each instalment carrying interest at the rate of four per cent per annum



from the commencement of this Ordinance, or (b) in saleable or otherwise transferable promissory notes or stock certificates of the Central Government issued and repayable at par, and maturing at the end of—

(i) ten years from the commencement of this Ordinance and carrying interest from such commencement at the rate of four and a half per cent. per annum, or

(ii) thirty years from the commencement of this Ordinance and carrying interest from such commencement at the rate of five and a half per cent. per annum, or

(c) partly in cash (to be paid by cheque drawn on the Reserve Bank) and partly in such number of securities specified in item (i) or item (ii), or both, of clause (b), as may be required by the existing bank, or

(d) partly in such number of securities specified in item (i) of clause (b) and partly in such number of securities specified in item (ii) of that clause, as may be required by the existing bank.

(3) The first of the three equal annual instalments referred to in clause (a) of sub-section (2) shall be paid, and the securities referred to in clause (b) of that sub-section shall be issued, within sixty days from the date of receipt by the Central Government of the option referred to in that sub-section, or where no such option has been exercised, from the latest date before which such option ought to have been exercised.

(4) The option referred to in sub-section (2) shall be exercised by every existing bank before the expiry of a period of three months from the appointed day (or within such further time, not exceeding three months, as the Central Government may, on the application of the existing bank, allow and the option so exercised shall be final and shall not be altered or rescinded after it has been exercised.

(5) Any existing bank which omits or fails to exercise the option referred to in sub-section (2), within the time specified in sub-section (4), shall be deemed to have opted for payment in securities, specified in item (i) of clause (b) of sub-section (2).

(6) Notwithstanding any thing contained in this section, any existing bank may, before the expiry of three months from the appointed day or within such further time, not exceeding three months, as the Central Government may, on the application of the existing bank, allow make an application in writing to the Central Government for an interim payment of an amount equal to seventy-five per cent of the amount of the paid-up capital of such bank, as on the commencement of this Ordinance, indicating therein whether the payment is desired in cash or in securities, specified in sub-section (2) or in both.

(7) The Central Government shall, within sixty days from the receipt of the application referred to in sub-section (6), make the interim payment to the existing bank in accordance with the option specified in such application.

(8) The interim payment made under sub-section (7) shall be set off against the total amount of the compensation payable to such existing bank under this Ordinance and the balance of the compensation remaining outstanding after such payment shall be given to the existing bank in accordance with the option exercised, or deemed to have been exercised, under sub-section (4) of sub-section (5), as the case may be:

Provided that where any part of the interim payment is obtained by an existing bank in cash, the payment so obtained shall be set off, in the first instance, against the first instalment of the cash payment referred to in sub-section (2), and in case the payment so obtained exceeds the amount of the first instalment, the excess amount shall be adjusted against the second instalment and the balance of such excess amount, if any, against the third instalment of the cash payment.

(9) Any payment purported to have been made to an existing bank under sub-section (3) of section 15 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1969, shall be deducted by the Central Government from the amount of the compensation due to such existing bank and the amount so deducted shall be paid by the Central Government to the corresponding new bank.

CHAPTER IV

Management of corresponding new banks

7. (1) The head office of each corresponding new bank shall be at such place as the Central Government may, by notification in the Official Gazette, specify in this behalf, and, until any such place is so specified, shall be at such place at which the head office of the existing bank, in relation to which it is the corresponding new bank, is on the commencement of this Ordinance, located.

(2) The general superintendence, direction and management of the affairs and business of a corresponding new bank shall vest in a Board of Directors which shall be entitled to exercise all such powers and do all such acts and things as the corresponding new bank is authorised to exercise and do.

(3) (a) As soon as may be after the appointed day, the Central Government shall, in consultation with the Reserve Bank, constitute the first Board of Directors of a corresponding new bank consisting of not more than seven persons, to be appointed by the Central Government, and every Director so appointed shall hold office until the Board of Directors is constituted in accordance with the scheme made under section 9;

Provided that the Central Government may, if it is of opinion that it is necessary in the interests of the corresponding new bank so to do, remove a person from the membership of the first Board of Directors and appoint any other person in his place.

(b) Every member of the first Board of Directors (not being an officer of the Central Government or of the Reserve Bank) shall receive such remuneration as is equal to the remuneration which a member of the Board of Directors of the existing bank was entitled to receive immediately before the commencement of ths Ordinance.

(4) Until the first Board of Directors is appointed by the Central Government under sub-section (3), the general superintendence, direction and management of the affairs and business of a corresponding new bank shall vest in a Custodian, who shall be the chief executive officer of that bank and may exercise all powers and do all acts and things as may be exercised or done by that bank.

(5) The Chairman of an existing bank holding office as such immediately before the commencement of this Ordinance, shall be the Custodian of the corresponding new bank and shall receive the same emoluments as he was receiving immediately before such commencement:

Provided that the Central Government may, if the Chairman of an existing bank declines to become, or to continue to function as, a Custodian of the corresponding new bank, or, if it is of opinion that it is necessary in the interests of the corresponding new bank so to do, appoint any other person as the Custodian of a corresponding new bank and the Custodian so appointed shall receive such emoluments as the Central Government may specify in this behalf.

(6) The Custodian shall hold office during the pleasure of the Central Government.

8. Every corresponding new bank shall, in the discharge of its functions, be guided by such directions in regard to matters of policy involving public interest as the Central Government may, after consultation with the Governor of the Reserve Bank, give.

9. (1) The Central Government may, after consultation with the Reserve Bank, make a scheme for carrying out the provisions of this Ordinance.

(2) In particular, and without prejudice to the generality of the foregoing power, the said scheme may provide for all or any of the following matters, namely:—

(a) the capital structure of the corresponding new bank, so however that the paid-up capital of any such bank shall not be in excess of rupees fifteen crores;

(b) the constitution of the Board of Directors, by whatever name called, of the corresponding new bank and all such matters in connection therewith or incidental thereto as the Central Government may consider to be necessary or expedient;

(c) the reconstitution of any corresponding new bank into two or more corporations, the amalgamation of any corresponding new bank with any other corresponding new bank or with another banking institution, the transfer of the whole or any part of the undertaking of a corresponding new bank to any other banking institution or the transfer of the whole or any part of the undertaking of any other banking institution to a corresponding new bank;

(d) such incidental, consequential and supplemental matters as may be necessary to carry out the provisions of this Ordinance.

(3) Every Board of Directors of a corresponding new bank, constituted under any scheme made under sub-section (1), shall include—

(a) representatives of the employees and depositors of such bank, and

(b) such other persons as may represent the interests of farmers, workers and artisans, to be elected or nominated in such manner as may be specified in the scheme.

(4) The Central Government may, after consultation with the Reserve Bank, make a scheme to amend or vary any scheme made under sub-section (1).

(5) Every scheme made by the Central Government under this Ordinance shall be laid, as soon as may be after it is made, before each House of Parliament while it is in session for a total period of thirty days which may be comprised in one session or in two successive sessions, and if, before the expiry of the session in which it is so laid or the session immediately following, both Houses agree in making any modification in the scheme or both Houses agree that the scheme should not be made, the scheme shall thereafter have effect only in such modified form or be of no effect, as the case may be; so, however, that any such modification or annulment shall be without prejudice to the validity of anything previously done under that scheme.

CHAPTER V

Miscellaneous

10. (1) Every corresponding new bank shall cause its books to be closed and balanced on the 31st day of December of each year and shall

appoint, with the, previous approval of the Reserve Bank, auditors for the audit of its accounts.

(2) Every auditor of a corresponding new bank shall be a person who is qualified to act as an auditor of a company under section 226 of the Companies Act, 1956, and shall receive such remuneration as the Reserve Bank may fix in consultation with the Central Government.

(3) Every auditor shall be supplied with a copy of the annual balance-sheet and profit and loss account and a list of all books kept by the corresponding new bank, and it shall be the duty the auditor to examine, the balance sheet of and profit and loss account with the accounts and vouchers relating thereto, and in the performance of his duties, the auditor:

(a) shall have, at all reasonable times, access to the books, accounts and other documents of the corresponding new bank,

(b) may, at the expense of the corresponding new bank, employ accountants or other persons to assist him in investigating such accounts, and

(c) may, in relation to such accounts, examine the custodian or any officer or employee of the corresponding new bank.

(4) Every auditor of a corresponding new bank shall make a report to the Central Government upon the annual balance-sheet and accounts and in every such report shall state:

(a) whether, in his opinion, the balance sheet is a full and fair balance sheet containing all the necessary particulars and is properly drawn up so as to exhibit a true and fair view of the affairs of the corresponding new bank, and in case he had called for any explanation or information, whether it has been given and whether it is satisfactory;

(b) whether or not the transactions of the corresponding new bank, which have come to his notice, have been within the powers of that bank;

(c) whether or not the returns received from the offices and branches of the corresponding new bank have been found adequate for the purpose of his audit;

(d) whether the profit and loss account shows a true balance of profit or loss for the period covered by such account; and

(e) any other matter which he considers should be brought to the notice of the Central Government.

(5) The report of the auditor shall be verified, signed and transmitted to the Central Government in such manner as may be prescribed.

(6) The auditor shall also forward a copy of the audit report to the corresponding new bank and to the Reserve Bank.

(7) After making provision for bad and doubtful debts, depreciation in assets, contributions to staff and superannuation funds and all other matters for which provision is necessary under any law, or which are usually provided for by banking companies, a corresponding new bank shall transfer the balance of profits to the Central Government.

11. For the purpose of the Income-tax Act, 1961, every corresponding new bank shall be deemed to be an Indian company and a company in which the public are substantially interested.

12. (1) Every person holding office, immediately before the commencement of this Ordinance, as Chairman of an existing bank shall, if he becomes Custodian of the corresponding new bank, be deemed, on such commencement, to have vacated office as such Chairman.

(2) Save as otherwise provided in sub-section (1), all officers and other employees of an existing bank shall become, on the commencement of this Ordinance, officers and employees of the corresponding new bank and shall hold their offices or services in that bank on the same terms and conditions and with the same rights to pension, gratuity and other matters as would have been admissible to them if the undertaking of the existing bank had not been transferred to and vested in the corresponding new bank and continue to do so unless and until their employment in the corresponding new bank is terminated or until their remuneration, terms or conditions are duly altered by the corresponding new bank.

(3) For the persons who immediately before the commencement of this Ordinance were the trustees for any pension, provident, gratuity or other like fund constituted for the officers or other employees of an existing bank, there shall be substituted as trustees such persons as the Central Government may, by general or special order, specify.

(4) Notwithstanding anything contained in the Industrial Disputes Act, 1947, or in any other law for the time being in force, the transfer of the services of any officer or other employee from an existing bank to a corresponding new bank shall not entitle such officer or other employee to any compensation under this Ordinance or any other law for the time being in force and no such claim shall be entertained by any court, tribunal or other authority.

13. (1) Every corresponding new bank shall observe, except as otherwise required by law, the practices and usages customary among bankers, and, in particular, it shall not divulge any information relating to or to the affairs of its constituents except in circumstances in which it is, in accordance with law or practices and usages customary among bankers, necessary or appropriate for the corresponding new bank to divulge such information.

(2) Every director, member of a local board or a committee, or auditor, adviser, officer or other employee of a corresponding new bank shall, before entering upon his duties, make a declaration of fidelity and secrecy in the form set out in the Third Schedule.

(3) Every Custodian of a corresponding new bank shall, as soon as possible, make a declaration of fidelity and secrecy in the form set out in the Third Schedule.

14. Every Custodian of a corresponding new bank shall be deemed to be a public servant for the purposes of Chapter IX of the Indian Penal Code.

15. (1) All acts done by the Custodian, acting in good faith, shall, notwithstanding any defect in his appointment or in the procedure, be valid.

(2) No act or proceeding of any Board of Directors or a local board or committee of a corresponding new bank shall be invalid merely on the ground of the existence of any vacancy in, or defect in the constitution of, such board or committee, as the case may be.

(3) All acts done by a person acting in good faith as a director or member of a local board or committee of a corresponding new bank shall be valid, notwithstanding that it may afterwards be discovered that this appointment was invalid by reason of any defect or disqualification or had terminated by virtue of any provision contained in any law for the time being in force:

Provided that nothing in this section shall be deemed to give validity to any act by a director or member of a local board or committee of a corresponding new bank after his appointment has been shown to the corresponding new bank to be invalid or to have terminated.

16. (1) Every Custodian of a corresponding new bank and every officer of the Central Government and of the Reserve Bank and every officer or other employee of a corresponding new bank, shall be indemnified by such bank against all losses and expenses incurred by him in or in relation to the discharge of his duties except such as have been caused by his own wilful act or default.

(2) A director or member of a local board or committee of a corresponding new bank shall not be responsible for any loss or expens caused to such bank by the insufficiency or deficiency of the value of, or title to, any property or security acquired or taken on behalf of the corresponding new bank, or by the insolvency or wrongful act of any customer or debtor, or by anything done in or in relation to the execution of the duties of his office, unless such loss, expense, insufficiency or deficiency was due to any wilful act or default on the part of such director or member.

17. Any reference to any existing bank in any law other than this Ordinance, or in any contract or other instrument shall, in so far as it relates to its undertaking which has been transferred by section 4, be construed as a reference to the corresponding new bank.

18. No provision of law relating to winding up of corporations shall apply to a corresponding new bank and no corresponding new bank shall be placed in liquidation save by order of the Central Government and in such manner as it may direct.

19. (1) The Board of Directors of a corresponding new bank may, after consultation with the Reserve Bank and with the previous sanction of the Central Government, make regulations, not inconsistent with the provisions of this Ordinance and any scheme made thereunder, to provide for all matters for which provision is expedient for the purpose of giving effect to the provisions of this Ordinance.

(2) In particular, and without prejudice to the generality of the foregoing power, the regulations may provide for all or any of the following matters, namely:—

(a) the powers, functions and duties of local boards and restrictions, conditions or limitations, if any, subject to which they may be exercised or performed, the formation and constitution of local committees and committees of local board including the number of members of any such committees, the powers, functions and duties of such committees, the holding of meetings of local committees and committees of local boards and conduct of business there at;

(b) the manner in which the business of the local boards shall be transacted and the procedure in connection therewith;

(c) the delegation of powers and functions of the board of directors of a corresponding new bank to the general manager, director, officer or other employee of that bank;

(d) the conditions or limitations subject to which the corresponding new bank may appoint officers, advisers and other employees and fix their remuneration and other terms and conditions of service;

(e) the duties and conduct of officers, advisers and other employees of the corresponding new bank;

(f) the establishment and maintenance of superannuation, pension, provident or other

funds for the benefit of officers or employees of the corresponding new bank or of the dependants of such officers or employees and the granting of superannuation allowances, annuities and pensions payable out of such funds;

(g) the conduct and defence of legal proceedings by or against the corresponding new bank and the manner of signing pleadings;

(h) the provision of a seal for the corresponding new bank and the manner and effect of its use;

(i) the form and manner in which contracts binding on the corresponding new bank may be executed;

(j) the conditions and the requirements subject to which loans or advances may be made or bills may be discounted or purchased by the corresponding new bank;

(k) the persons or authorities who shall administer any pension, provident or other fund constituted for the benefit of officers or employees of the corresponding new bank or their dependants;

(l) the preparation and submission of statements of programmes of activities and financial statements of the corresponding new bank and the period for which and the time within which such statements and estimates are to be prepared and submitted; and

(m) generally for the efficient conduct of the affairs of the corresponding new bank.

(3) Until any regulation is made under sub-section (1), the articles of association of the existing bank and every regulation, rule, bye-law or order made by the existing bank shall, if in force at the commencement of this Ordinance, be deemed to be the regulations made under sub-section (1) and shall have effect accordingly and any reference therein to any authority of the existing bank shall be deemed to be a reference to the corresponding authority of the corresponding new bank and until any such corresponding authority is constituted under this Ordinance, shall be deemed to refer to the Custodian.

20. (1) In the Banking Regulation Act, 1949—

(a) in section 34A, in sub section (3), for the words "and any subsidiary bank", the words, figures and brackets "a corresponding new bank constituted under section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1970, and any subsidiary bank" shall be substituted;

(b) in section 36AD, in sub-section (3), for the words "and any subsidiary bank", the words, figures and brackets "a corresponding new bank constituted under section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1970, and any subsidiary bank" shall be substituted;

(c) in section 51, for the words "or any other banking institution notified by the Central Government in this behalf , the words, figures and brackets "or any corresponding new bank constituted under section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1970, or any other banking institution notified by the Central Government in this behalf shall be substituted;

(d) in the Fifth Schedule, in Part I of paragraph 1, in clause (e), the Explanations shall be deemed never to have been inserted.

(2) In the Industrial Disputes Act, 1947, in section 2, in clause (bb), for the words "and any subsidiary bank", the words, figures and brackets "a corresponding new bank constituted under section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1970, and any subsidiary bank shall be substituted.

(3) In the Banking Companies (Legal Practioners Clients Accounts) Act, 1949, in section 2, in clause (a), for the words "and any subsidiary bank", the words, figures and brackets "a corresponding new bank constituted under section 3 of the Banking Companies Acquisition and Transfer of Undertakings) Ordinance, 1970, and any subsidiary bank" shall be substituted.

(4) In the Deposit Insurance Corporation Act, 1961,—

(a) in section 2,—

(i) after clause (e), the following clause shall be inserted, namely:—

'(ee) "corresponding new bank" means a corresponding new bank constituted under section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1970;

(ii) in clause (g),—

(a) for the words "or a banking company",

the words "a corresponding new bank or a banking company", and

(b) for the words "with a banking company the words "with a corresponding new bank or with a banking company".

shall be substituted;

(iii) in clause (i), after the words "banking company", the words "or a corresponding new bank" shall be inserted:

(b) section 13 shall be re-numbered as sub-section (1) thereof and after sub-section (1) as so re-numbered, the following sub-section l be inserted, namely:—

"(2) The provisions of clauses (a), (b), (c), (d) and (h) of sub-section (1) shall apply to a corresponding new bank as they apply to a banking company.

(5) In the State Agricultural Credit Corporations Act, 1968,—

(a) in section 2, after clause (i), the following clause shall be inserted, namely:—

'(ii) "corresponding new bank" means a corresponding new bank constituted under section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1970,

(b) after the words "subsidiary banks" or "subsidiary bank", as the case may be, occurring in clause (d) of sub section (3) of section 5, in clause (b) of section 9 and in the proviso to section 18, the words "corresponding new banks" or "corresponding new bank", as the case may be, shall be inserted.

21 (1) Notwithstanding any judgment, decree or order of any court or tribunal,

(a) any action taken, or purported to have been taken, or anything done, or purported to have been done, between the 19th day of July, 1969, and the 10th day of February, 1970, by any corresponding new bank purported to have been constituted under the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1969, or the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1969, or by any person purporting to act on behalf of such bank and any right, obligation or liability acquired or incurred, between the said dates. by or on behalf of such corresponding new bank shall be deemed to have been taken, done, acquired or incurred under the provisions of this Ordinance by or on behalf of the corresponding new bank constituted thereunder;

(b) any action taken, or purported to have been taken, or anything done, or purported to have been done, between the 10th day of February, 1970, and the appointed day, by an existing bank or by any person acting on behalf of such bank, and any right, obligation or liability acquired or incurred, between the said dates, by or on behalf of such existing bank shall be deemed to have been taken, done, acquired or incurred under the provisions of this Ordinance by or on behalf of the corresponding new bank constituted thereunder.

(2) Any suit, appeal or other proceeding of whatever nature instituted on or after the 19th day of July, 1969, by or against a corresponding new bank purported to have been constituted by the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1969, or the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1969, shall not abate, be discontinued, or be, in any way, prejudicially affected by reason of the expiry of the said Ordinance or the invalidation of the said Act, as the case may be, but such suit, appeal or other proceeding may be continued, prosecuted and enforced by or against the corresponding new bank as if such suit, appeal or other proceeding had been instituted by or against the corresponding new bank constituted under this Ordinance.

THE FIRST SCHEDULE

(See sections 2, 3 and 4)

Existing bank	Corresponding new bank
Column 1	Column 2
The Central Bank of India Limited	Central Bank of India
The Bank of India Limited	Bank of India
The Punjab National Bank Limited	Punjab National Bank
The Bank of Baroda Limited	Bank of Baroda
The United Commercial Bank Limited	United Commercial Bank
Canara Bank Limited	Canara Bank
United Bank of India L mited	United Bank of India
Dena Bank Limited.	Dena Bank
Syndicate Bank Limited.	Syndicate Bank.
The Union Bank of India Limited.	Union Bank of India.
Allahabad Bank Limited	Allahabad Bank.
The Indian Bank Limited.	Indian Bank.
The Bank of Maharashtra Limited.	Bank of Maharashtra.
The Indian Overseas Bank Limited.	Indian Overseas Bank

THE SECOND SCHEDULE

(See section 6)

Name of existing bank	Amount of compensation (in lakhs of rupees)
The Central Bank of India Ltd.	1750
The Bank of India Ltd	1470
The Punjab National Bank Ltd.	1020
The Bank of Baroda Ltd;	840
The United Commercial Bank Ltd.	830
Canara Bank Ltd.	360
United Bank of India Ltd.	420
Dena Bank Ltd.	360
Syndicate Bank Ltd.	360
The Union Bank of India Ltd.	310
Allahabad Bank Ltd.	310
The Indian Bank Ltd.	230
The Bank of Maharashtra Ltd.	230
The Indian Overseas Bank Ltd.	250

THE THIRD SCHEDULE

(See sub-sections (2) and (3) of section 13)

DECLARATION OF FIDELITY AND SECRECY

I, do hereby declare that I will faithfully, truly and to the best of my skill and ability execute and perform the duties required of me as Custodian, Director, member of Local Board, member of Local Committee, auditor, adviser, officer or other employee (as the case may be) of the*
and which property relate to the office or position in the said—
held by me.

I further declare that I will not communicate or allow to be communicated to any person not legally entitled thereto any information relating to the affairs of the* or to the affairs of any person having any dealing with the* ; nor will I allow any such person to inspect or have access to any books or documents belonging to or in the possession of the*
and relating to the business of the*
or to the business of any person having any dealing with the*

*Name of corresponding new bank to be filled in.

V.V. Giri,
President,
14-2-1970

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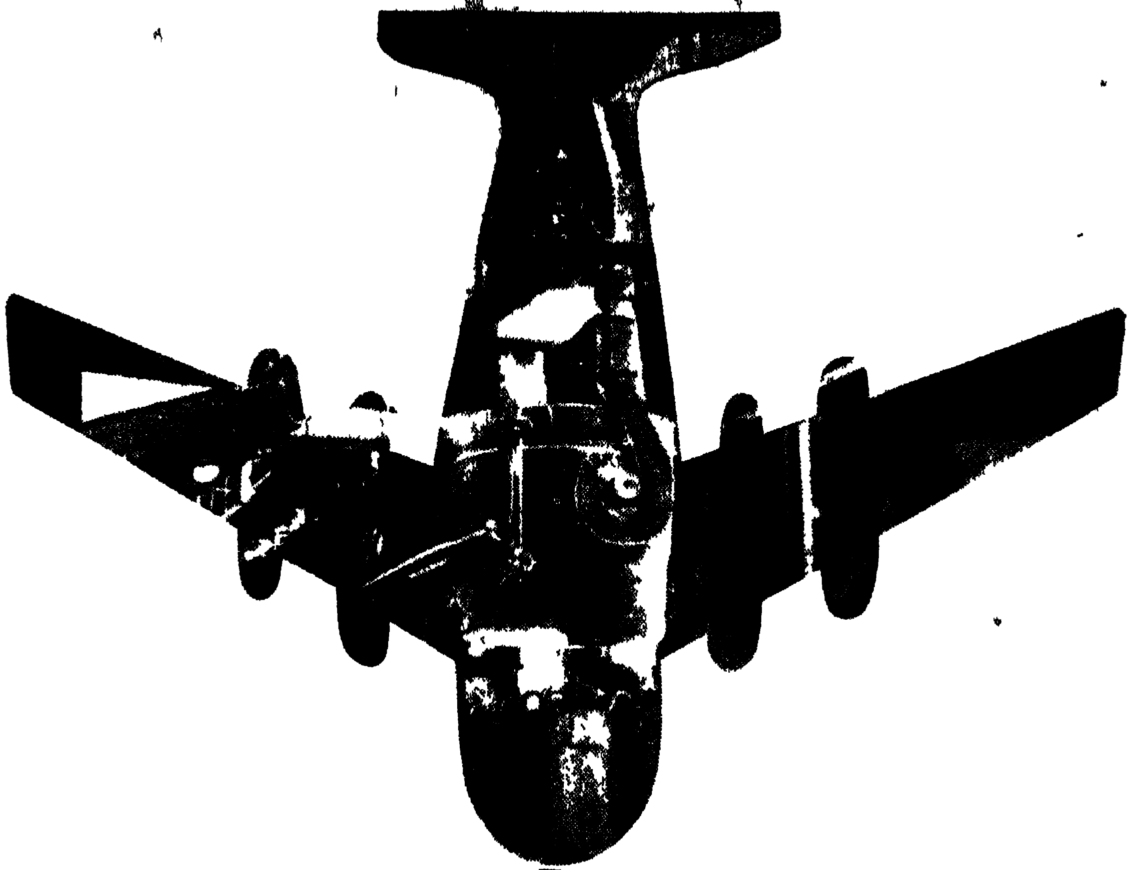


Printed and Published by R. P. Agarwala, on behalf of the Eastern Economist Ltd., United Commercial Bank Building, Parliament Street, New Delhi, at the New India Press, Connaught Circus, New Delhi.
Editor : V. Balasubramanian
Registered at the G.P.O., London, as a newspaper

EASTERN 9 ECONOMIST

UPEES 1.50. FEBRUARY 27, 1970. VOL. 54

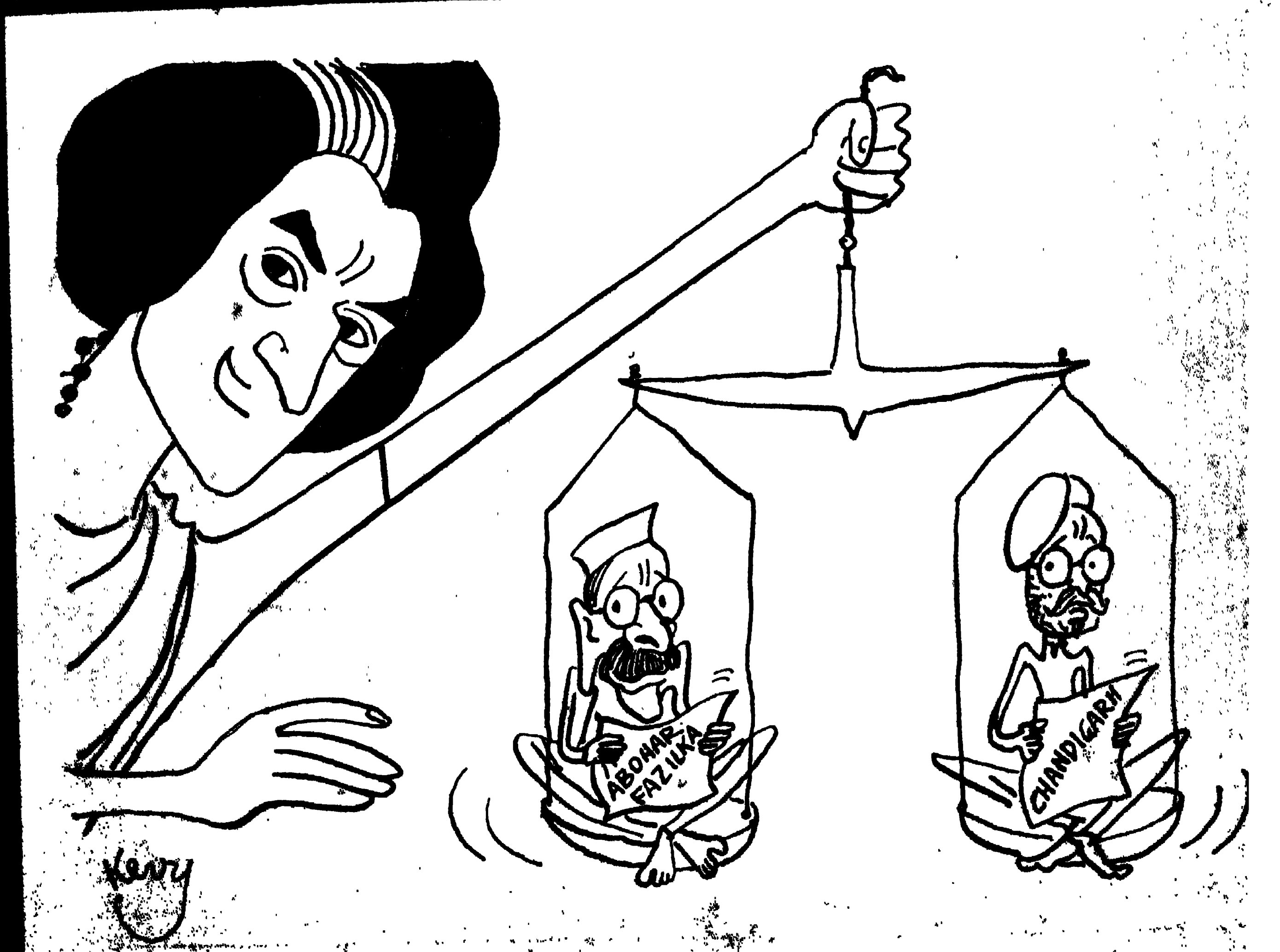
Memo to Mrs Gandhi

Banks in a Development Context

Canada Leaps into the Seventies

INTO THE RED

Nanda Asks for More as Railways Lose the Race Between Operating Costs and Earnings.



Holding the Scales Even

EASTERN ECONOMIST

FEBRUARY 27, 1970

ANNUAL SUBSCRIPTION

INLAND : Rs 85.00
FOREIGN : £7-0-0 or $17-00

Airmail & Advertisement Rates on Enquiry.

REGISTERED OFFICE

UCO Bank Building, P. Box 34, Parliament Street, New Delhi-1.

Options for an Austere Budget

THE EDITOR

IF THE Railway budget is an indication, the central government has evidently resolved upon an austere, if not tough, economic policy. It is true that Railway finances have been in serious imbalance for some years now and that an attempt has to be made sooner rather than later to correct this situation and this trend. Nevertheless, there is both political and economic significance in the fact that the Prime Minister and her colleagues have now chosen to assume responsibility for such a patently unpopular measure as a substantial increase in freight rates and passenger fares all round. The political implication perhaps is that the party presently in power at the centre does not believe that it would be compelled to go to the polls in the near future for a renewal of its mandate to govern. The economic meaning may be that the Prime Minister and her advisers are determined to take the difficult steps that may be needed for generating additional resources required for sustaining higher levels of development outlays or other public expenditure.

In some ways, the economic climate and even the political context do seem to favour a reasonably large resources effort. For one thing, the pace at which the economy has been recovering from the partial industrial recession that came in the wake of the end of the third Plan has been far from exhilarating. I may refer here to the experience of the Railways. Although the then Railway Minister, while presenting the budget for the current year, had estimated a growth in originating goods traffic of the order of nine million tonnes, it is now being reckoned that the additional goods traffic would not exceed 5.5 million tonnes. When we relate this fact to an economic situation in which agricultural production has been reassuringly upward, while exports have at least been well-maintained, we are forced to conclude that commerce and industry in terms of internal trade have not been able to make their proper contribution to the building up of general economic activity to higher levels.

In these circumstances, an increase in the level of public outlays is apt to be generally looked upon with favour as being likely to have a dynamic effect on the behaviour of the economy. With the fourth Plan having been condemned to a belated start, a substantial increase in the investment effort will generally be considered essential if this Plan is to gain any credibility at least in its second year. Responsible and informed public opinion, in other words, will be inclined to cooperate with the central government in any budgetary bid it may make for generating additional resources for sustaining a higher level of investment or economic activity in the nation.

Mrs Gandhi, no doubt, has quite a few options open to her in patterning this resources effort. She however will have to pick and choose with care and caution. The price trend will have an important bearing on her decisions. Although there has so far been nothing which is really alarming about the behaviour of prices, there could be nasty surprises in the months ahead. The Reserve Bank, evidently, is not taking a complacent view as is shown by its moves, of late, for the enforcement of more vigorous discipline on the availability of credit for industry and trade. It follows that Mrs Gandhi will have to exercise great judgment in determining the quantum of deficit financing which she may propose for the new financial year. Public opinion on the subject has no doubt become sufficiently educated to appreciate not only the need for but also the desirability of deficit financing being resorted to for raising a due proportion of any additional resources that may be needed for supporting a high level of public outlays. At the same time, it is quite important indeed that the government's economic and fiscal policies should studiously avoid giving an impression of an inflationary disposition.

I believe that Mrs Gandhi will be in quite a favourable position where public borrowing is concerned. It has been my view for some time now that this means of tapping the community's savings is not being adequately exploited. The higher direction of government policies as well as the performance of the Reserve Bank must be blamed for the failure that there has been in the promotion of a proper gilt-edged market. I do not expect this lapse to be corrected overnight, but the nationalisation of 14 major banks (whatever may be the other merits of this step) should certainly be of assistance to the central government now in em-

ploying the banking system as a positive and powerful instrument for the success of a full-blooded borrowing programme.

Given a responsible level of deficit financing and a bold or even adventurous programme of market loans, the central government may not be under any great necessity to mount a tax effort which will be beyond the community's capacity to pay. It is my belief that additional taxation of the order of about Rs 150 crores may be attempted without undue hardship being inflicted on individuals or injury being done to the national economy. Much the greater part of this additional taxation could be obtained easily through a wide-ranging tapping of the central excise duties. In an economy, which is steadily expanding its industrial structure it would be natural for excise taxation to grow in range and depth from year to year and, provided the selection of commodities and the determination of rates are wisely made, the government ought to be able to raise additional revenue from this source without inviting legitimate objections.

Import duties constitute another tax-bearing field which could be husbanded with discriminating purposiveness. It is, however, extremely important that nothing should be done here which might throw any new load on the expansion of existing industries or the establishment of new industries involving imported machinery or other capital equipment. At a time when the limited investible resources in the community have to be stretched as far as they could go, it would certainly not be sensible for the central government to appropriate any more of these resources through increases in duties on imported capital goods. This apart, in the case of major industrial projects, financial arrangements, including those relating to foreign collaborations, are usually negotiated to such fine tolerances that any new liability imposed on such ventures in such forms as an increase in import duties on machinery or other industrial equipment, could easily upset delicately-reared structures of financing.

From a purely budgetary point of view and in the strict terms of a reasonable resources effort, there is unlikely to be need for any significant new initiatives in the area of direct taxation. At the same time, it is unrealistic to expect Mrs Gandhi to refrain from making a show of force or at least vigour on this politically profitable front. No useful purpose would be served by my speculating at this juncture on what she may elect to do in the general direction of soaking the rich or in the particular matter of enforcing a ceiling, direct or indirect, on urban property or other forms of wealth. It only remains to hope that she has considered with a sense of responsibility and some economic wisdom such proposals as may have come up before her relating to such possibilities as capital or other levies on corporate assets, fiscal discouragement of bonus shares or dividends and sharp increases in the wealth tax on individuals. The economic consequences of any expropriatory taxation of productive capital with companies or investible funds with individuals ought certainly to be weighed carefully before political temptations are yielded to.

As for the taxation of incomes of individuals or companies, a sound case can, no doubt, be made up for plugging such of those loopholes as may encourage tax avoidance to an extent which may defeat the intentions of the tax laws. It may also be justifiable to assess critically the continuing need for various allowances, rebates and refunds which add to the complexity of the tax system without improving its fairness or efficiency. But such reforms can be justifiably accepted only if simultaneously the basic rates of taxation of incomes, whether of individuals or companies, are brought down to more reasonable levels so that desirable incentives are nursed and protected.

A word about possible fiscal proposals generally, whether they are in the field of indirect taxes or that of direct taxes. The government, in all its pronouncements down to its latest statement of industrial licensing policy, has affirmed and reaffirmed its concern for the sound and fast growth of priority industries. It would clearly go against this declared objective if the coming budget were to impose any new fiscal liability on such industries, thereby adding to the difficulties they experience already in obtaining capital resources or organising their equities on a sound basis. These industries have a special claim to consideration, where import duties on the capital goods needed by them or excise duties on their products are concerned. In fact, a certain degree of stability and certainty of fiscal treatment ought to be assured to industries in the core sector and other industries which are significantly related to basic economic growth.

In any budget which opts for substantial additional taxation, the role of reliefs could only be marginal if not symbolic. Even so, the Prime Minister should be able to win legitimate popularity by raising the exemption limit for liability to income-tax. Only, this concession should not be made an excuse for the rates being stepped up on incomes in the higher slabs which are already heavily taxed.

Elsewhere, it should be possible for Mrs Gandhi to reconsider the validity of excise duty on fertilizers which was imposed for the first time in the current financial year. If the aim is only to make relatively affluent farmers contribute to central taxes, this could be progressively accomplished by the elaboration of the general structure of

Eastern Economist 25 Years Ago

MARCH 2, 1945

There is only one test by which Sir Jeremy Raisman's valedictory budget will be judged by this country: How far does it prepare India's war-ravaged economy to meet the difficult and perilous period of reconversion and transition from war to peace which is in prospect, without prejudice to the immediate needs of the war? Judging by this test we have no hesitation in pronouncing it an unqualified and unmitigated failure. For the needs of the war it provides adequately, even excessively. In fact the excess of Rs 96 crores in defence expenditure over the earlier estimate in 1943-44 and of Rs 130 crores in 1944-45 on the ground that war was fought on Indian soil is suspicious in the light of a bigger figure for 1945-46, when a decline is to be expected — a matter which the legislature will do well to enquire into. But, for the imperative needs of reconversion the budget certainly does not provide. It abounds in vivid descriptions of the economic events ranging from China to Peru. It is rich in wholly irrelevant and fallaciously argued excursions into the field of economic theory. But it fails to take notice of the inexorable needs of the dangerously deteriorated economic situation of this country. Even the most sympathetic appraiser of the retiring Finance Member's record will scan his speech in vain for one bold stroke of constructive effort. Despite his claim to the contrary, Sir Jeremy has managed to succeed remarkably well in aggravating the difficulties which this unfortunate country will have to face after the war.

the central excise duties, without necessarily including in this exercise commodities which are in the nature of agricultural inputs.

Mrs Gandhi will, no doubt, give thought to arguments which are being continually advanced in favour of the removal or reduction of existing export duties. Tea, jute goods and coir products seem entitled to consideration. There may be others. Conversely, it ought to be possible to consider certain goods, not paying any export duties now, for a levy [illegible] kind.

All these however are details. What would really matter is that the Prime Minister should produce a budget with which Parliament and informed public opinion should be able to co-operate in the faith that its fiscal proposals would provide for a reasonable resources effort without flirting with inflation or destroying desirable economic incentives in the community for the sake of the government's short-term and short-sighted political gains.

Into the Red

ONCE AGAIN the Railways have lost the race between operating costs and earnings. Although, in the current year, they would be moving only about 5.5 million tonnes of goods traffic as against the budget anticipation of an increase of nine million tonnes, they would be spending Rs 17.7 crores more than the budget provision for ordinary working expenses. This increase in the cost of Railway operations is only the latest instalment in a continuing trend which has been steadily eating into the solvency and financial viability of the Railways over the years. So far as 1969-70 is concerned, the nominal budgeted surplus of Rs 1.91 crores has been wiped out. Instead, there is a revenue shortfall of Rs 12.55 crores. To enable the Railways to pay the dividend of Rs 158.43 crores to the general revenue, there is thus need to make good this deficit and, for this purpose, the Railways will be taking a loan of Rs 9.85 crores from general revenues, after availing itself of the amount of Rs 2.84 crores in the Railway Revenue Reserve Fund.

Mr G.L. Nanda, presenting the Railway budget in the Lok Sabha on February 23, mournfully informed the House that this would be the fourth year in succession when net Railway revenues had failed to produce the full amount due as dividend to the general revenues. This chronic imbalance in Railway finances naturally casts its shadow over the budgetary outlook for the Railways in the new financial year of 1970-71. The Railway Minister has to shoulder the unenviable responsibility for correcting this situation. Predictably perhaps he has followed the line of least resistance. Resorting to a general increase in freight rates and passenger fares, he has sought to raise an additional amount in the aggregate of Rs 39 crores.

With this proposed augmentation of revenues, Mr Nanda believes that the Railways will not only be able to meet out of its earnings in the new year its dividend liability in full but also show a net surplus of Rs 22.38 crores. Counting his chickens which are still to be hatched, the Railway Minister plans to credit the major part of this expected surplus to the Development Fund, after appropriating a portion to the Revenue Reserve Fund for repaying one-third of the loan taken this year to meet the shortfall of the dividend plus interest on the outstanding balance of the loan.

It may be said to the credit of the Railway Minister that this planned financial rectitude on his part is altogether admirable. The question however is whether the anticipated net surplus would actually materialise even after the public has been made to pay more for the services of the Railways on the lines indicated in Mr Nanda's budget proposals regarding freight rates and passenger fares. In the first place, the Railway Minister assumes an increase of the order of 7.6 million tonnes in originating goods traffic in the budget year. Although this estimate is more modest than the corresponding budget estimate for the current year, it is still appreciably in excess of the volume of traffic which is expected to materialise this year. The Railways, in other words, are gambling on a substantial improvement in the level of economic activity. The gamble may come off — or it may not.

As against this, the Railways will almost certainly fail once again to contain the growth in their working expenses. As it is, the provision for this expenditure is Rs 17.94 crores in the budget year which, incidentally, is about the same as the actual increase in Ordinary Working Expenses in the current year over the amount budgeted for the purpose. In the circumstances, Mr Nanda's anticipations regarding the probable size of Ordinary Working Expenses in the new financial year are hardly likely to inspire confidence.

The position, then, is that despite the higher bill which the community is being called upon to pay for the services of the Railways in the new financial year, there is still no certainty that Railway finances will be coming out of the red. When this is the truth about the Railway earnings as related to the costs of Railway operations, it is clearly not possible to rationalise, as Mr Nanda wants to do, the proposed increases in freight rates and fares as being related to the responsibility which the Railways have for generating resources for their capital schemes during the fourth five-year Plan. The freight rates and fares are being increased not so much for generating development resources or even for bringing about the financial solvency of Railway operations as in a vain attempt to enable Railway receipts to keep pace with the steadily mounting costs of Railway operations.

It is possible, of course, that some of the circumstances making for the continuing increase in operating costs are beyond the control of the Railway administration. But what is more to the point here is that there is no evidence that the Railways are trying to control effectively at least those factors of costs which fall within their field of regulation. It is being repeated *ad nauseam*, in one railway budget speech after another, that the expenditure on staff, fuel and stores has been increasing in accordance with the broader trends in the economy. Surely, this is not a situation which is to be accepted in a spirit of resignation and without any attempt at remedial action. There is such a thing as productivity and it is high time that a little more had been heard of what the Railways have done or propose to do to moderate increases in the real cost of labour or fuel or stores through improvement in administration or operating efficiency. As it is, the Railways seem to be content with exploiting their semi-monopolistic position for passing on increases in costs to captive users of rail transport.

An official handout has chosen to describe the increases in freight rates and fares as "marginal". A sum of Rs 39 crores, however, is not a small one and, in deciding on a general increase in passenger fares, the Railways would seem to have been indifferent to the hardship this policy may cause to persons of limited means undertaking necessary travel in this country of long distances. Similarly, in decreeing a general increase in freight rates, they have been equally casual about the adverse impact this measure may have on commerce and industry in our high-cost economy.

Finally, if there is anything at all to be said in favour of this Railway budget, it is that it has not been lacking

in political courage. Mr Nanda has not hesitated to step into sensitive areas where popular opinion could be aroused against new levies. Even that highly combustible element, suburban season-ticket holder, is being compelled to pay his tribute to Railway finances. In a way, this should be a blessing. Seeing that the Railway administration is either unwilling or unable or both to take effective measures for increasing productivity, improving operational efficiency and thereby controlling the growth in costs, we are forced to conclude that the discipline which public resistance to repeated increases in freight rates and passenger fares may exercise could be a wholesome factor in forcing the Railways to realise that there are limits to their passing the buck to the consumer. To the extent that this public resistance can be constitutionally and constructively expressed only through the responses and reactions of Members of Parliament, their views on and attitudes towards Mr Nanda's proposals on fares and freight rates will be awaited with interest.

Banks in a Development Context

THE FIRST International Seminar on Banking and Development organised by the Reserve Bank of India may be said to be the parting gift of Mr L.K. Jha as Governor of the Reserve Bank of India to the banking community not only of India but of all developing countries generally. It was indeed a grand idea to get together from both developed and developing countries so many prominent bankers and a picked handful of academicians and financial journalists from India to deliberate on and provide solutions to what Mr Jha himself described so aptly as the dilemma of central bankers in developing countries. Although this dilemma is, in the main, how to reconcile the conflicting claims of growth and stability, it has so many facets, as can be seen from some of the issues for consideration posed by the Reserve Bank of India chief himself in the paper on "Banking and Development" he presented to the seminar. As to list these is to give some idea of the discussions, we had better set them down here in full.

(*i*) How best can the community's preference for saving in the form of financial assets be raised ?

(*ii*) Is there any optimum relationship between the rate of monetary expansion and the rate of real income growth ?

(*iii*) In what manner and to what extent should the rate of monetary expansion considered desirable in a multi-annual context be tempered to the exigencies of current developments ?

(*iv*) How important is price stability in the growth context ? Is there a tolerable or desirable level of price rises ?

(*v*) What adaptation in monetary policy or techniques including the regulation of the level and structure of interest rates, is implied in the process of bringing new sectors into the monetary orbit, without in the process sacrificing the discipline needed for stable and orderly growth ?

(*vi*) What kind of a role can a monetary budget and a credit plan play in a developing economy ?

(*vii*) What should be the central bank's responsibilities for building up the financial infrastructure of growth ?

(*viii*) Should the central bank operate only through the commercial banking system by providing rediscount or refinance facilities, or should it also engage in direct financing or undertake commercial banking functions ?

(*ix*) What are the relative advantages of a system of branch banking as compared to the unit banking system? Should there be a functional or territorial specialisation on the part of commercial banks, or, should they operate as agencies purveying credit for a variety of purposes and to a number of sectors ?

(*x*) Are differential rates on deposits, say, from rural areas, an appropriate incentive for mobilisation of savings ?

(*xi*) How is the profitability of branch expansion to be assessed ? Are there any suggestions for reducing the operational costs of branch banking ?

(*xii*) What basis or techniques of bank lending to agriculture and small industries can strike the right balance between judging loan applications in terms of "purpose" and/or in terms of "security" ?

(*xiii*) Is there much experience to draw upon in the field of co-ordinating the deposit mobilisation and credit disbursal activities of commercial and co-operative banks in the rural areas ?

(*xiv*) To what extent and in what ways should the activities of specialised term-landing institutions be linked to or co-ordinated with similar or allied activities of commercial banks and of the capital market as a whole ?

(*xv*) What should be the relationship between term-lending institutions and the central bank from the point of view particularly of co-ordinating the flows of capital funds from such institutions with the current alignment of monetary policy?

As the report released by the organisers of the seminar makes it clear, although various views were expressed by the participants, there was no attempt to draw or state agreed conclusions. But this does not mean that the seminar was not without its value. For there is always much to gain for those who care from the free and frank exchange of views and the comparison of mutual experiences that such seminars help to bring out. Not unoften, those who

tend not to take their responsibilities too seriously, or are apt to adopt the line of least resistance, are content to transplant ideas or solutions from a foreign country without due regard to the circumstances obtaining there or the stage of economic evolution reached by it. Just as no two persons are exactly alike, conditions and environments in no two different countries are similar in every way, wherefore what is applicable to or feasible in one country is not always so in another country.

In a seminar, where there are representatives from different countries in different stages of economic evolution and even with different ideologies, it becomes possible both to present the peculiarities of every conceivable situation as has developed in the different countries and to assess the advisability or practicability of their solution as tried out in the countries of the different participants and the measure of success achieved. Even so, the final answer may not emerge, but atleast many doubts are bound to be dispelled and new approaches or approaches with new nuances may suggest themselves.

It is noteworthy that, at the outset itself, the seminar stressed the view that the problem of development is a continuing one and that no country can regard itself as having reached the peak of its developmental efforts. In the dynamic society that we live in, if we solve one problem, another raises its head crying out for solution. Even the leading advanced countries cannot say they have no development problems, so that the problem of financing development will continue to engage the attention of all bankers, in particular those heading central banks the world over.

The report on the seminar refers to a view that it is not necessary to rely on the financial market mechanism in every country. However, the report goes on to say, later on, regardless of how far reliance is placed on the market mechanism, there is need for appropriate and economic pricing policies, especially pricing of capital and of foreign exchange. This almost gives the reader the impression that, after stating more or less absolutely that a country could do without market mechanism, the seminar had second thoughts subsequently and opted out for allowing some limited scope for market mechanism. It must have been difficult for the proponents of such a view seriously to conceive of pricing policies without the market mechanism, whatever form or name they may care to give to it.

That inadequacy of savings and pressure on financial resources in relation to investment needs are by no means a universal phenomenon is no new discovery, but, after locating its existence, one expected the seminar would recommend to developing countries with adequate resources and well-developed financial institutions but not sufficient outlets for investment to go to the help of their not so fortunate sister (developing) countries, as one way of putting the former's resources to fuller use. The report merely speaks of development financing organisations supplementing monetary policies by channeling finances to developing areas without making it clear whether these areas refer to the countries concerned themselves or to such areas in other countries.

The reference in the report to the unorthodox Japanese example of "overloaning' by banks is an interesting example of appetite whetting. Many students of banking and perhaps also many of our rulers would have welcomed more details about the part played by this kind of unorthodox credit policy which has been held to be responsible for Japan's recent economic growth by the Manager, Economic Research Department of the Bank of Tokyo.

The discussions on monetary policy, especially in times of inflation and deflation, fiscal policy as a necessary complement to monetary policy, and financial mechanism in mobilising and allocating savings in countries which have been moving from a centralised to a decentralised system must have been interesting too, but it is not clear why when, in regard to "overloaning", the name of Japan was specifically mentioned, in respect of countries moving to a decentralised system, the report fought shy of naming Yugoslavia.

In the context of the prevailing controversy over nationalising the 14 major banks, the recent Supreme Court decision and the new ordinance that has been promulgated, it is heartening to note that this important international seminar felt that, in order to accelerate the process of economic growth, commercial banks should play a greater role in development. While the suggestion to tag on the saving schemes to lending as a means of deposit mobilisation can be tried, we are not sure how enthusiastic commercial banks, would be that the proposed reallocation of credit, necessitated by the scarcity of the aggregate volume of savings, on the one hand, and the need to cater to the requirements of investment in both the traditional and new areas, on the other, cannot but be a painful operation to them.

On the question of specialised financial agencies, there was a general feeling, and rightly too, against proliferation of institutions, but the temptation must seem irresistible to newly developing countries which ask for these, in particular where these institutions also are in a position to provide foreign exchange to industrial undertakings. Often they are mistaken for a status symbol. Anyway if, as the seminar has suggested, development banks have to endeavour resorting to the capital market for their resources, though with the active assistance of the central bank in their country, the tendency to proliferate may receive a setback. Incidentally, there is here some appreciation or recognition of the role of a capital market to cheer our marketmen.

Around the West Coast Ports

THE EDITOR

ON FEBRUARY 3, a tripartite conference, meeting in New Delhi, accepted the recommendations of the Central Wage Board for Port and Dock Workers at the major ports regarding the wages of unskilled port and dock workers. The broad impact of this development on the finances of these ports would be that the administrations concerned will have to find, in the aggregate, a sum of about Rs 10 crores a year to finance the additional payments payable to labour.

The financial resources of the various port administrations vary widely. The Bombay Port Trust perhaps is in the happy position of being able to meet its increased obligations under the agreement out of its accumulated reserves if it so desires. The Calcutta Port Trust may not be so well-placed. There is reason to fear, in fact, that the financial liabilities it will have to face as a result of the New Delhi agreement would be widely beyond its capacity to pay. This could mean that it will have to borrow from the central government for meeting its obligations.

State of Flux

Again, irrespective of its bearing on the particular financial status of individual major ports, the New Delhi agreement has come at a time when the economies of the administrations of these ports are in a state of flux and vulnerable to many imponderable factors. For one thing, every one of them is being obliged to plan or provide for projects and programmes of expansion or modernisation of varying dimensions. It follows that any inroads made into their earnings at the present time will aggravate to that extent the strains of financing their development plans.

I am not suggesting that this is a conclusive argument against the acceptance by the port trusts of increased liabilities towards their labour. For one thing, they are not free agents in this matter. For another, the maintenance of industrial peace at the docks is at least as important for the successful development programmes of the ports as the availability of adequate funds for these programmes. My purpose in referring to the financial implications of the New Delhi agreement, therefore, is only to bring out their relevance to the expansion and modernisation plans which are now in various stages of processing or implementation at our major ports or rather at those major ports of the west coast of our country with which I propose to concern myself here.

Let us start with the case of the Bombay Port Trust. As I had mentioned earlier, this port trust has been able to build substantial reserves over the years. This could act as a cushion against its increased wage bill. But then the Bombay port has certain very special responsibilities towards the national economy, if only because it handles about a third of the total cargo passing through the major ports of the country. Bombay, moreover, has undertaken and very nearly completed a dock expansion programme of some magnitude. The object of this programme has not only been to increase the capacity of this port for the handling of general or bulk cargo, but also to modernise the facilities available to ships and shippers at this port in tune with advances abroad in harbour and port management.

This article records impressions gathered in the chourse of a tour of the major ports on the west coast by a press party under the auspices of the Ministry of Transport and Shipping.

Although the current programme of expansion is nearing completion, a project for establishing a satellite port at Nhava Sheva, seven miles across the Bombay harbour, still lies in the future. A special feature of the Bombay port is that, within the area of the present harbour, only limited room is available for further expansion. Hence, the need for the Nhava Sheva scheme, apart from the incidental benefits which this proposed satellite port may offer due to its proximity to the developing industrial area near the Thana Creek or in the form of shorter and more direct access to the hinterland. Now, these expansion and modernisation programmes, completed or projected, may be able to pay their way only if productivity increases at the docks. It is true that some rationalisation or perhaps even increases in port charges and dues may be found possible, but the port trust will have to depend, by and large, on an increase in technical efficiency for getting the best out of its past and projected expenditure on development.

This consideration has become all the more important because of the tripartite agreement, for it is just not conceivable that the Bombay Port Trust should be drawing repeatedly on its reserves for meeting its wage bill. From this point of view, the New Delhi agreement suffers from a serious weakness. While the promise of industrial peace it holds out for the five-year period covered by it is not by any means firm, it is completely silent on any pledge on the part of dock labour to co-operate with management in increasing productivity. It is possible that port managements themselves look on the tripartite deal as an incentive to labour to aim at greater productivity in the future, but there is no evidence that this interpretation is shared by the unions concerned, which seem to be disposed to take the line that the increased remuneration they have won as a result of the New Delhi agreement is only a deferred payment for levels of performance established already.

Difficult to Digest

As for major ports on the west coast, which are financially far less well-placed than Bombay, the consequences of the wage settlement for dockers will certainly be far more difficult to digest. Even a fairly busy and popular port, such as Mormugao, is bound to experience difficulties since its bread and butter comes from the ore traffic which can survive and compete in international trade only if the transportation of iron ore could be organised and conducted as a low-cost affair. If iron ore shipped from Mormugao is able to find markets abroad, despite its relatively low ferrous content, it is because of low transport costs resulting from the proximity of the mining areas to the port. It is therefore quite important that the capacity of the Mormugao port to handle this bulk traffic economically should not be prejudiced in any manner.

The economy of the Kandla port is likely to be particularly upset if there is to be any immediate increase at all in the cost of handling of cargo by it. Kandla, let the truth be bluntly stated, is still a port which has yet to find its feet. The temporary availability of cargo in the form of food ships from abroad has so far served to disguise the fact that Kandla has not succeeded in developing firm and stable custom. Psychologically even more than economically it continues to be isolated from its hinterland and its struggling free zone offers no near prospect of

assisting it even marginally in reaching a viable status.

II

A cynic might describe the Mangalore major port project as a product of calculated absent-mindedness. The decision for constructing a major port at this place where an intermediate port now exists seems to have been taken by the Government of India without particular conviction. In fact, a substantial amount had been spent on capital works on the project without formal cabinet authorisation or sanction of the major port scheme itself and this expenditure was only ratified *ex-post facto* when it was finally decided to go ahead with the scheme. There has been some questioning of the need for the construction of a major port in these parts of the west coast and strong doubts have been expressed in particular about the claims of Mangalore as a site for a major port. These controversies are no longer relevant as the project has been finally approved and they cannot therefore serve as an excuse for the Government of India dragging its feet, as it seems to be doing, where financial sanctions or other facilities for the quick completion of the project are concerned.

It is often pleaded that the development or construction of a new port could powerfully contribute to the promotion of agricultural, industrial and other economic growth in its hinterland. This is true enough, but it is not all the truth. Quite often the purposive planning and pursuit of the development of the hinterland becomes a necessary condition or corollary for the minimum feasibility of a port. This is true even of established ports at certain stages of their expansion, not to speak of entirely new ones in their infancy.

Cochin's Worries

For instance, take Cochin which has been developed into a major port in relatively recent times. Cochin enjoys the advantages of handling a fairly wide range of high-value cargo, such as tea, cashew, spices and marine foods. It has also been able to benefit from a substantial traffic in petroleum products and, with the establishment of the Cochin refinery, bulk cargoes of crude oil. The expansion of this refinery and the setting up of a new fertiliser factory in the region should soon add to the turnover at Cochin port. This apart, there has been a spectacular improvement in the export of marine foods. All the same, Cochin is not without its worries and anxieties for the future.

Even as it is, while planning to construct a fisheries harbour for coping with the growing traffic in marine foods, it is being called upon to make allowance for the steady shrinkage in the exports of coir products. It is high time that there had been general recognition that the export trade in coir products must reckon with a historic shift in the tastes of consumers abroad who, because of their growing affluence, are increasingly inclined to favour more luxurious materials for floor coverings or furnishing fabrics. It would follow that it would be reasonable for the interests concerned and the governments, state and central, to pay greater attention to export trades which are more in tune with consumer trends abroad.

The economy of Kerala and the economy of the Cochin port are fortunate in that they seem to have struck a gold mine in the fast developing export trade in marine foods which has now reached an impressive total of Rs 33 crores a year. It is not irrelevant to the functioning of the Cochin port that there should be an organised effort now to tap more intensively the potentialities of this particular export business. This would mean the development of a deep-sea fishing fleet, equipped with suitable trawlers. There is much to be done here through co-operation among the central government, the state government and the exporters of marine foods. The authorities of the Cochin Port Trust too seem to have a clear stake in this business.

Comprehensive Plan

In the case of the major port which is coming up at Mangalore, the regional development plan will have to be even more comprehensive as well as intensive. The sad situation of Kandla port to which there has been a reference earlier and of which more will be said presently, is a clear warning that no time should be lost in co-ordinating the agricultural and industrial development of the relevant hinterland with the commissioning of the major port at Mangalore. Much, apparently is expected of the new rail link between Mangalore and Hasan and once Kattur and Harihar are also connected by railway, high-grade haemitite from the Bellary-Hospet area would be available for shipping through Mangalore port.

But, while improved communications will certainly help, they cannot be a substitute for the deliberate promotion of industrial projects where a relatively backward area is concerned. From this point of view, a prompt effort to investigate and exploit the iron ore deposits at Kudremukh, about 65 km. from the new port, should form an integral part of a broad regional plan of which the building of the major port at Mangalore would be an important feature. A pilot project authorised by the central government is reported to have revealed that the Kudremukh deposits have as high an ore content as 69 per cent. The National Mineral Development Corporation has estimated the total ore deposit in the area at about five billion tonnes on the basis of proved reserves of 600 million tonnes. These are spectacular figures and if they prove to have any relevance to commercial possibilities at all, the exploitation of the Kudremukh reserves should go far towards guaranteeing the viability of the major port project at Mangalore. This apart, there is also to be considered the proposed fertilizer project at Mangalore. It remains to be seen how all these stray proposals or possibilities are brought together into a fruitful combination.

Expectations not Fulfilled

Expectations of such co-ordinated regional planning are not easy to entertain in the light of our experience. At this point I may return to Kandla. The logic of Kandla was and is that it should function as a new outlet on the west coast to compensate for the loss of the Karachi port due to the partition of the country. The implication was that the foreign commerce of Punjab, Rajasthan and part of Uttar Pradesh should be made available to the Kandla port in addition to the business originating in Gujarat. None of these expectations has been fulfilled to any appreciable extent. This has been partly due to defective communications between the Kandla port and its hinterland. This situation, however, is now being corrected. A more important reason for the unpopularity of Kandla with its hinterland seems to be the powerful pull which the Bombay port exercises by virtue of its established contacts and connections.

So far as the import trade is concerned, the ports in Bombay, Calcutta and Madras have the advantage that the imported goods could easily be resold by the importers at the points of unloading which are highly developed commercial centres. In this respect, ports at other places must necessarily be at a disadvantage. It is therefore all the more essential that special attention should be given to the promotion of export traffic through such ports. It is a sad fact that not enough attention seems to have been paid to this aspect of the development of ports, such as Kandla. On the contrary, there has been such lack of co-ordination in the central government that certain concessions given by the Railway Board with a view to meeting the competition from road transport has given an advantage to Bombay over Kandla as a shipping outlet for raw cotton grown in northern India which used to be shipped through Karachi before partition. It is clearly

desirable that the central government should adopt a co-ordinated approach on behalf of its various departments, ministries and agencies for promoting an effective linkage of the Kandla port with its natural hinterland.

It is equally important that the business community of Gujarat, and particularly the industrialists and merchants of Ahmedabad, should take a more positive interest in the effective functioning of Kandla port as an important element in the economy of the state. There is reason to suspect that neither the state government nor the industrialists in the state have taken as much direct interest in promoting the viability of Kandla as they may have done. To some extent their responsibilities in this direction could be discharged by their co-operating more with the development of the free-trade zone of Kandla port. It is now generally recognised that the concessions and facilities offered for those who may set up industries in this free trade zone are not only sufficient but generous. What is now needed is a positive response from industrialists, particularly the business leaders of Gujarat.

At a time when the emphasis is on expansion and modernisation there is a strong temptation for those responsible for the administration of major ports to allow themselves to be carried away by grandiose notions. It is gratifying to note that the port trusts have generally been able to practise creditable restraint in this matter. Although the Major Ports Commission has approved of facilities being installed at Bombay and Cochin (and also Haldia on the east coast) for handling containers, there is a sober recognition among the various port trusts of the limitations of container traffic under the conditions prevailing in our foreign commerce.

Inhibiting Factors

Stringent controls on imports and exacting customs requirements are only two of the reasons which may inhibit the rapid development of container traffic. It is unlikely also that our ports will be able to court or attract the extra-large vessels which are making their debut in the world's carrying trade. It may not be economical for such huge vessels to offer themselves for carrying bulk cargo from India unless there could be a two-way traffic in the form of bulk imports into India. In these circumstances, the expansion and modernisation plans of the various port trusts are legitimately modest. While capital dredging is being undertaken wherever it is necessary, it is generally believed that no attempt need be made to provide berthing facilities within harbours for the extra-large vessels.

Even so there is certainly both scope and need for the continuous modernisation of port facilities for coping with the emerging requirements of the world's carrying trade. The technique of pelletisation is being adopted to a limited extent in Cochin and it will, no doubt, spread soon to other ports, such as Bombay. At Mormugao, only about 25 per cent of the ore traffic is being mechanically loaded at present. A new and modern ore-handling plant is therefore being set up to improve the position. Mormugao, incidentally, seems to be the favoured one where New Delhi is concerned. Its expansion schemes for the fourth Plan have been approved at a cost of Rs 28 crores, while the World Bank has agreed to advance a loan of from Rs 6 to 8 crores. With a fertilizer factory coming up in Goa and a steel plant considered a possibility for the region in the none-too-distant future, Mormugao has every reason to plan big. While, therefore, the centre's co-operation should not be grudged to the expansion of this port, it is not unreasonable to suggest that the legitimate needs of other ports or projects, such as Kandla or Mangalore, should be similarly constructively dealt with.

A point of some importance which I

would wish to make is that, at this stage in the development of our ports and harbours along the coasts of our country, it is highly desirable that systematic thought should be given by the Ministry of Transport and Shipping to providing the various port trusts or administrations with adequate capital equipment. There now seems to be an acute shortage, for instance, of dredgers, a deficiency which is seriously obstructing progress of construction at least at one place, viz., Mangalore.

A difficulty is the reluctance of the government to authorise the expenditure of foreign exchange for the buying of dredgers from abroad. This attitude may be justified only if steps can be and are being taken simultaneously to ensure that craft of reasonable efficiency are manufactured at domestic facilities, such as the Garden Reach Workshop, and made available to interested port administrations without undue delay. The position here seems to be rather unsatisfactory and it must therefore command the immediate attention of the Ministry of Transport and Shipping. Incidentally, a proper order of priorities would surely mean that we should expand our manufacturing capacity for vessels or craft needed for the construction or maintenance of ports and harbours before we proceed to have a second shipyard for building ocean-going vessels.

Finally, a word about the Food Corporation of India. This institution, which handles our imports of foodgrains and fertilizers, is the principal client and customer of Kandla port. The efficiency with which it handles its responsibilities in arranging for the unloading and despatch of cargoes intended for it is therefore a decisive factor in the quality of performance of the Kandla port. I have reason to believe that the Food Corporation has not been giving a good account of itself and it is certainly a matter of some public interest that an investigation should be made of the demurrage incurred by it not only at Kandla but other ports as well. An audit of this kind, besides revealing the extent to which the taxpayer's money is being wasted or essential commodities, such as foodgrains and fertilizers, are being exposed to avoidable damage and pilferage, may also have a wholesome effect on the quality of operations at the ports.

Science at the Crossroads

KRISHNA CHAITANYA

WITH HIS capacity for probing analysis and sober judgment, Joseph Needham is always rewarding reading. His latest book *The Grand Titration* (Allen & Unwin, 1969, Pp. 350, 63 Sh.) is, however, a compilation of essays, lectures and broadcasts and though the title is arresting enough it cannot quite achieve a sustained unity of theme and argument.

To many, the title would also need considerable explanation. Briefly, titration is a volumetric analysis for determining the quantity of a given chemical compound in a solution by letting it react with the solution of another compound. The layman need not further bother himself about the chemistry of the whole affair. The expression is used figuratively and the implicit promise of the title is an analysis of the factors whose compounded effect determines the progress of science in any civilization and the further exploration of the reasons why civilizations progress unevenly in this field, lagging behind others in certain epochs and racing ahead of them in other periods.

The promise is not quite fulfilled. Though the subtitle indicates that the work is "a study of science and society in East and West," the East here has shrunk to China. One does get a clear idea of the scientific achievements of old China. This is not surprising because the writer is the author of the monumental *Science and Civilization in China*. But the explanation of why China did not keep up the pace of development is not wholly convincing. The other major theme in the compilation is the humanistic value of science. To many, this subject will be more fascinating than the material on China.

Lord Bacon was aware of only three major inventions which emanated from China and east Asia: printing, gun powder and the magnetic compass. But there are a hundred others: such as mechanical clockwork, iron casting, stirrups and efficient horse-harness, the Cardan suspension and the Pascal triangle, segmental-arch bridges and pound-locks on canals, quantitative cartography, etc. With his Marxist background, Needham always relates scientific developments to underlying social relations. For instance, he points out that, with an efficient harness for animals, a civilisation could do without slavery. If the Egyptians had had efficient animal harness, they might have used animals instead of men for transporting the vast blocks of stone for building the pyramids. Needham traces the absence in China of slavery, at least of the type known in ancient Greece, to the early evolution of an efficient harness for animals. Surprisingly enough, his finding is that the centralised, feudal-bureaucratic style of social order was favourable in the earlier stages for the growth of applied sciences.

No Clear Idea

But we are still left without a clear idea of why scientific progress was arrested in China and the leadership here passed on to the west. One explanation Needham offers is this. "The available ideas of a Supreme Being, though certainly present from the earliest times, became depersonalized so soon, and so severely lacked the idea of creativity, that they prevented the development of the conception of laws ordained from the beginning by a celestial law-giver for non-human nature. Hence the conclusion did not follow that other lesser rational beings could decipher or reformulate the laws of a great rational Super-Being if they used the methods of observation, experiment, hypothesis and mathematical reasoning."

Interesting as the suggestion is, it has to be accepted with caution. Medieval Europe believed in a personalized Supreme Being, but the very belief was used to discourage science. For instance, Ambrose of Milan was very curt with people who speculated how the earth was suspended in space: because, according to him, God did not fix the earth's stability as an artisan would, with compass and level, but as the Omnipotent, by the might of His command. In India, the depersonalized concept of *Rita* or cosmic order preceded the evolution of the concept of a personalized god; and in the fine synthesis of the *Gita*, the personalized deity only presides at the pageant of nature and does not function directly as the impresario of that great production. "Under My presiding (*maya adhyakshena*) nature generates all things, animate and inanimate and by this instrumentation the world revolves." The world not only revolves, but evolves too, and for explaining this evolution Indian thought formulated the Sankhya system which, in spite of some anachronistic features, has startling affinities with the thought of Bergson and Teilhard de Chardin.

Indian thought here links smoothly with that of Needham, for he too believes in a steady linear trend in evolution. His criteria for assuming a definite progress are the differentiation and specialisation of structures in organisms, their co-ordination, the increasing independence of organism from

its environment and the rising effectiveness with which the organism carries out its purposes of survival and reproduction, including the power of moulding its environment.

But have we not reached a stage when man's immensely enhanced power over his environment, gained through the progress of science, has become self-defeating in a grotesquely nihilistic sense? It is here that some of Needham's ideas appear to be outmoded. He seems to have uncritically accepted the humanistic implications of science, as when he talks about a real kinship between the scientific mind and the democratic mentality. Today it is dangerous to confuse what science can and ought to be with what it has turned out to be. Needham feels that by virtue of the intrinsic nature of the scientific discipline, objective truth will win out in the end in scientific thought.

Unconscionable Delay

But the end may be unconscionably delayed and damage may get done in the meanwhile. For instance, reviewing a book on Lysenko in *Science* for June 27 last year, Dobzhansky pointed out that Lysenko came out with his fantastically unscientific theory of genetics in 1935 after getting the approval of the Politburo and of Stalin personally. And in Stalin's obituary in *Pravda* of March 8, 1953, Lysenko wrote that Stalin "personally edited the draft of the paper *On the Situation in Biological Science*, explained to me in detail his corrections and gave me instructions on delivery." This was definitely a case of unholy collusion between science and politics, which according to Dobzhansky resulted in "the miseducation of a generation of agricultural and biological specialists." Even in a non-totalitarian system, as pointed out by Robert S. Morison, Head of the Division of Biological Sciences at Cornell University, in *Science* for July 11, 1969, "the continuing momentum of science towards goals of its own choosing appears to be coupled ever less closely to solving problems of clear and pressing consequences to human welfare."

The sell-out by the intellectuals, exposed by Benda several years ago in his *Trahison des Clercs*, has reached a climax today in the participation of thousands of scientists in the programme for evolving mega-kill weaponry. In his presidential address to the British Conservation Society in November 1968, Ritchie Calder affirmed that there was radio-active strontium in the bones of every young person in the world who grew up during the bomb-testing cycle which caused the Lucky Dragon tragedy. He attributed this mishap to miscalculation by those responsible for the H-bomb testing. But there is more and more evidence that scientists are not just slipping up, but deliberately suppressing data. A recent instance of this is the difficulties faced by the American Association for the Advancement of Science when it wanted to sponsor an impartial scientific survey of the harm being done to all biological systems through the defoliation programme launched in Vietnam. The Midwest Research Institute of Kansas City had produced a report on this, but it casually minimised the dangers of defoliation and this was not unnaturally attributed to the fact that the MRI was a subsidiary research organisation of the Department of Defence. The National Academy of Sciences also was not considered fit for conducting a survey because many of its research projects directly or indirectly assisted the biological warfare programme of the Department of Defence.

Needham, thus, underrates man's Midas touch, the capacity for vitiating everything he touches. The salvation lies, not in trusting the automatic cybernetics of any discipline or system, but in getting clean guys for helmsmen. But the species seems nearly extinct.

New Dimensions in Iron Ore Trade

H. G. GOEL

IRON ORE has become an international commodity. World trade in iron ore has risen from a mere 33 million tonnes in 1950 to over 225 million tonnes in the sixties and this is expected to be doubled by 1980. Great stimulus to the expansion of international trade is due to the fact that steel makers have been able to find captive mines in a good number of countries and obtain their external supplies at progressively cheaper rates by introducing on the high seas the bulk ore carriers of capacities over 100,000 dwt effecting considerable reduction in ocean freight.

Development of new mines and extensive use of bulk ore carriers of large sizes have resulted in bringing down the delivery prices of iron ore by 40 to 50 per cent during the past decade. It goes without saying that ore carriers will offer a more exciting challenge in the current decade. The emergence of Australia, Liberia, Angola, Brazil, Venezuela, Chile and others as major exporters and growing competition from Russia has given new dimensions in the supply of iron ore to the world market. There has also been a major shift in the consumer preferences in regard to the grades and sizes of ores as well as in the use of sinters and pellets.

Most of the steel producing nations depend on imported iron ore. In the case of Japan and Italy 92-93 per cent of the supplies are obtained from external sources. Dependence of West Germany on imported iron ore is to the extent of 84 per cent, UK 56 per cent, the USA 36 per cent and France 13 per cent, and this will go on increasing progressively. World steel production has increased during the past decade by about 60 per cent to 530 million tonnes, while the supply of iron ore has grown at a slower rate of 23 per cent to around 650 million tonnes. This shows there is a progressive increase in the utilisation of scraps by the principal steel producing countries. Of the total world consumption of iron ore, about 35 per cent is met by external sources and 65 per cent by domestic production. Of the total world exports (225 million tonnes) of iron ore, the offtake by Japan is the highest being roughly 25 per cent followed by the USA 20 per cent, West Germany 16 per cent, Belgium 10 per cent, the UK 7 per cent, and Poland, Italy and Czechoslovakia each 4 per cent. Nearly 16 per cent of the total external demand is met by Canada, 12 per cent by the USSR, 11 per cent by Sweden, 10 per cent by France, 8.5 per cent by Liberia, 8 per cent by Venezuela, about 7 per cent each by India, Brazil and Australia.

Bright Future

There is an immense future for our iron ore exports. Iron ore is now being treated as a traditional item of export as is jute, tea and textiles. It accounts for over 51 per cent of the total mineral exports and 6.2 per cent of the total Indian merchandise. Iron ore exports from this country have witnessed phenomenal growth during the past decade. Measured in terms of quantity, exports have risen by 62 per cent to 15.0 million tonnes in 1969 compared to 1960 and foreign exchange earnings by 168 per cent to Rs 875 million. Export demand for our iron ore would rise to about 31 million tonnes by 1973-74 and is expected to go up to 48.5 million tonnes by 1978-79; the foreign exchange earnings would be of the order of Rs 1,545 million and Rs 2,420 million, respectively.

Iron ore of this country is at present exported to Japan, east Europe and west Europe. These areas account for

83 per cent, 13 per cent and 3 per cent, respectively of the total exports during 1969. During the past decade the exports to Japan have grown from 4.6 million tonnes to 12.2 million tonnes and those to east Europe from 1.2 million tonnes to 2.0 million tonnes while the export to west Europe declined from 3.3 million tonnes in 1960 to 0.4 million tonnes in 1969.

Japan would continue to be the principal market for our iron ore and there is also expected to be rapid growth in demand from east European countries. The rate of growth in west European market however, is expected to be rather slow. In no country has steel production risen so fast as in Japan, from 22 million tonnes in 1960 to around 71 million tonnes in 1969 and it is expected to touch 100 million tonnes mark in 1978-79 and the corresponding requirements of iron ore would go up from 76 million tonnes to 112 million tonnes. The production of steel in east European countries is likely to double by the end of seventies from the present level of 35 million tonnes and their requirement of iron ore would increase from 45 million tonnes to 95 million tonnes. It is interesting to know that Rumania would be expanding its steel capacity from 4 million tonnes to 14 million tonnes. Czechoslovakia and Poland also envisage production of 20 million tonnes and 17 million tonnes of steel by the end of the current decade.

Even though Australia has become important country in iron ore trade and has entered into long term contracts, Japan seems to be equally interested in the other important suppliers including India, Canada, Latin America, Africa, the USSR and possibly China as well. The Republic of South Africa is also hoping to enter into Japanese market in a bigger way. Possibilities of export of iron ore from India to Japan are about 25 million tonnes and 28 million tonnes annually by 1973-74 and 1978-79. The demand of our iron ore in the east European market is estimated at four million tonnes in 1973-74 and 10 million tonnes by 1978-79. The demand for Indian iron ore in west European countries has been estimated at two million tonnes in

TABLE I

EXPORTS OF IRON ORE FROM INDIA: 1960-1969

Country	1960		1969*	
	Quantity ('000 tonnes)	Value (Rs '000)	Quantity ('000 tonnes)	Value (Rs '000)
Japan	4,568	176,331	12,483	720,850
East European Countries				
Czechoslovakia	812	37,325	672	42,829
Rumania	59	3,198	625	35,995
Poland ... — ..	73	3,694	420	27,345
Yugoslavia	127	6,330	172	10,908
Hungary	48	2,637	80	5,444
Germany, East	102	5,241	14	878
TOTAL	1,221	58,425	1,983	123,399
West European countries				
Germany, West	2,277	60,630	159	14,616
Belgium	..	..	304	11,668
Netherlands	149	3,686	15	1,729
Spain	..	..	16	662
France	70	2,180	..	...
Italy	593	18,968	..	...
Switzerland	11	611	...	—
Australia	110	2,760	..	...
UK	51	1,359	..	..
TOTAL :	3,261	90,194	494	28,675
Others	30	1,220	61	2,095
Grand Total	9,080	326,170	15,021	875,019

*Estimated on the basis of 11 months actual data
..Negligible.

TABLE II

EXPORT DEMAND FOR INDIAN IRON ORE

(Million tonnes)

	Lumps			Fines	Pellets	Total
	+63%	—63 %	Total			
1969-70	10.3	5.6	15.9	5.0	0.6	21.5
1973-74	14.9	5.3	20.2	9.0	2.0	31.2
1978-79	24.5	5.5	30.0	13.5	5.0	48.5

TABLE III

PRODUCTION AND DESPATCHES* (FOR EXPORT) OF IRON ORE—1969

('000 tonnes)

	Production	Despatches for Export
Andhra Pradesh	103	111
Bihar	5,322	2,072
Goa	7,411	6,972
Madhya Pradesh	6,743	2,907
Maharashtra	255	228
Mysore	2,814	2,695
Orissa	5,972	1,599
Rajasthan	2	..
TOTAL ..	28,622	16,584

1973-74 and seven million tonnes in 1978-79.

The trend of demand is more and more towards higher grades with iron content of 63 per cent and above and there is noticeable increase in the purchase of fines. Exports of pellets would also go up. Preference is given for ore sizes 10.30 mm and below 10 mm with silica content higher than alumina. In the European markets the demand is expected to be exclusively for lumps. Such changes in world demand and supply, patterns and consumer preferences for grades and sizes, sinters and pellets are now required to be kept in mind in international trade of iron ore. In 1968, about 90 million tonnes of iron ore in the form of pellets were charged into the furnaces.

Production of iron ore in the country has increased from 16.6 million tonnes in 1960 to 28.4 million tonnes in 1969 and a target of 54 million tonnes has been fixed for 1973-74. The production in Madhya Pradesh has risen five-fold and in Bihar it has nearly doubled during the past decade. Orissa and Mysore have also recorded 60 per cent and 50 per cent increases respectively.

Bulk of the future export demand for iron ore would be met from Madhya-Pradesh, Orissa and Mysore states. No major expansion is expected from Goa which is the leading exporting area at present excepting some increase in the export of pellets. Bailadilla — Visakhapatnam, Barajamda - Calcutta-Paradip, Diatari - Paradip and Bellary, Hospect - Madras - Goa, are the major iron ore complexes being developed by India to meet the export requirement. Over 30 per cent of the export demand during the fourth Plan would be met from Bailadilla.

In addition to lumps and fines, two million tonnes of pellets would also be exported by 1973-74.

The export of iron ore is very much linked with port handling capacities. Presently none of our ports are capable of accommodating vessels larger than 35,000 dwt. To achieve objectives of increasing iron ore exports the capacities of ports handling ores would be expanded from 21.8 million tonnes to 32.5 million tonnes by 1973-74. Major ports are being developed for receiving vessels of at least 60,000 dwt with loading rate of 45,000 tonnes per day. Visakhapatnam, Madras and Goa would have additional mechanised ore loading plants

TABLE IV

SOURCES FOR EXPORT DEMAND

(Million tonnes)

	1969-70			1973-74		
	Lumps	Fines	Total	Lumps	Fines	Total
Bailadilla	3.15	1.15	4.30	7.40	1.70	9.10
Barajamda	2.30	..	2.30	4.00	1.15	5.15
Bellary-Hospet	3.30	..	3.30	3.75	1.15	4.90
Kiriburu	1.60	..	1.60	—	—	—
Daitari	1.10	..	1.10	1.60	0.55	2.15
Donamalia	..	..	..	1.15	0.55	1.70
Goa	2.55	4.50	7.05	2.15	4.00	6.15
Others	1.60	..	1.60	0.55	...	0.55
Total	15.60	5.65	21.25	20.60	9.10	29.70

TABLE V

PORT CAPACITY

(Million tonnes)

	1969-70	1973-74
Calcutta & Haldia	0.6	3.0
Paradip	3.0	4.0
Vizag	6.0	10.0
Madras	2.6	5.0
Goa	8.0	10.5
Others	1.6	...
	21.8	32.5

Considerable thought is being given to improving the port handling capacities and accommodating larger vessels of 100,000 dwt. With these developments the present f.o.b.t. cost of ore originating from the different sectors (other than Goa) which generally varies between Rs 50 to 60 per tonne is expected to go down by about Rs 5 to 10 per tonne. There will be much reduction in the transport cost of ore from Barajamda after the railway line connecting Cuttack and Paradip is completed by 1971-72. The ocean freight payable on iron ore varies from \$3.50 to \$5.25. This is likely to be reduced to \$3.00-4.00 after the introduction of large vessels. The future task in the export of iron ore is not so simple as it may appear. Export of iron ore in large quantities depends very much on our improving port handling capacities most expeditiously as well as good transport facilities besides efficient mechanisation of mines.

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WINDOW ON THE WORLD

Canada Strides into the Seventies

JOSSLEYN HENNESSY

LONDON :

WHAT BASIC trends have been observable in Canada since 1950 ? What do they presage for the 1970s ?

These are the questions debated in the latest issue of the *Business Review* published by the Bank of Montreal (P.O.B. 6002, Montreal 101, P.Q., Canada).

The transition from the 1960s to the 1970s recalls in some ways that from the 1950s to the 1960s. As they could ten years ago, Canadians can look back at a decade in which their economy, on the whole, performed most satisfactorily. In the "Fabulous Fifties" the average annual rate of growth was 5.3 in real terms and in the "Soaring Sixties" it was 5.2 per cent.

Serious Problems

Yet as both decades ended, there were some serious problems. At the end of the fifties, Canadians faced a high rate of unemployment and a stagnating economy. At the close of the sixties, the unemployment rate was once again edging up but the foremost problem confronting the monetary and fiscal authorities at the beginning of the seventies is clearly the well-nigh universal one not of stimulating the economy but keeping it under restraint until inflationary pressures ease. Despite this tendency for the economy to end a decade on a somewhat sour note, Canadians were optimistic about the sixties ten years ago and there are few today who are not looking for bigger and better advances in the seventies, once the obstacles of inflation have been hurdled.

In the modern, complex world, economic growth no longer results solely from the classic factors of production, land, labour and capital. Technological innovation, monetary and fiscal policy, psychology, social conflict and many other factors each have some influence on economic progress. Yet at the risk of over-simplification, it is often useful to go back to some of the basic ingredients and the old adage remains true that a country's people are its most important asset.

In Canada, the postwar years saw a high birth rate, which generally persisted through the fifties. Thus the country moved into the sixties with a relatively large group of young people; in the 1961 census there were 6.2 million in the 0-14 age group, representing 34 per cent of the total population, in comparison with 4.3 million, or 30 per cent, at the time of the 1951 census. During the sixties, the birth rate fell markedly as, under the influence of "the pill" and other factors, changes in social habits led to smaller families.

The changing age composition of the population has other important implications. While pressure on school facilities of the kind that accumulated during the fifties and sixties will diminish considerably, there is little relief in sight for universities; more students are continuing their education through university and even into post-graduate studies. Many of those born in the fifties will be making their first productive contributions to the economy and, with their better training and education, they should give impetus to productivity and growth.

Changes in Labour Force

Just as there have been notable changes in the age structure of Canadians in the last two decades, there have been similar changes in the age composition of the labour force, in this case, complicated by changing participation rates for men and women. The male participation rate has declined steadily, while the female rate has shown an equally persistent tendency to rise, so that the ratio of men to women in the labour force declined from 78 in 1950 to 68 per cent in 1969.

In general, the male participation rate fell most rapidly during periods of slow growth or recession, such as the late fifties and early sixties. This is to be expected, because when jobs are hard to get and hold, those in the younger age groups stay in school rather than enter the labour force, while men who have retired do not attempt to get a job. Throughout the whole period, in fact, the trend towards younger men remaining longer in school or college, and the increased social security benefits allowed to those over 65 have probably been the principal factors in the decline of the male participation rate. While these influences will undoubtedly continue to have some effect into the seventies, it is expected that the male participation rate will begin to level out.

The rise in female participation rates, which became visible in the mid-fifties and quickened in the sixties, resulted from a different set of factors. Better and higher education, together with the rise of the service industries, opened up more attractive job opportunities for women. The percentage of married women in the labour force rose from 11 in 1951 to 34 per cent in 1969 and, in many cases, wives were working because they wanted to, and liked their jobs, rather than for the sake of the money alone. In addition, labour-saving devices in the home and the practice of not starting a family for several years after marriage added to the influx of women into the labour force. As in the male participation rate, the pace of economic activity had a noticeable effect on the female rate, with the most pronounced increases coming in the years of buoyant economic growth. The trend towards more female participation in the labour force should continue into the seventies, but will probably increase more slowly as family formations increase.

Varying Pattern

As might be expected, the pattern of employment has shown much more variation in response to the pace of economic activity than that exhibited by the labour force. The lowest unemployment rates for the entire period were in the early fifties. After a brief pause in 1954, employment again grew strongly during the boom based on natural resources, but with the recession of 1958, unemployment shot up to seven per cent and a serious unemployment problem became one of the legacies of the fifties to the sixties. As the economy picked up steam, the gap between labour force and employment was steadily narrowed until 1966 when the low point of the decade was reached. Thereafter, as inflation and other problems interfered with stable economic growth, and restrictive policies became necessary, the rate of unemployment began to rise again to its present level of about five per cent, and once more Canadians enter a new decade with a relatively high proportion out of work.

The outlook for the seventies will largely depend, in the early years at least, on success in controlling price pressures and defeating inflationary psychology. Canada's population mix assures that the labour force will continue to grow relatively rapidly as those who put off looking for work in the sixties in order to continue their education enter the job market in the 1970s. Thus it becomes increasingly

important to get the economy back on the path of stable growth.

In view of the extreme preoccupation with price increases at the present time it is interesting to note that prices in the sixties actually rose less than in the fifties. In fact, the price increases of the last few years have been considerably less severe than in the fifties when, after the removal of wartime controls, the pent-up demand of the forties, the reconstruction needs of Europe, and the exigencies of the Korean conflict, vented their full force on the Canadian economy, so that between 1950 and 1952 prices rose on average eight per cent per annum. Thereafter, price increases flatten out until mid-decade and the beginning of the natural resources boom. In the sixties, the price index line forms almost a perfect geometric curve with the rate of increase accelerating fairly constantly.

With current emphasis so heavily on reducing inflation, it is to be expected that the rate of price increases will moderate in the coming years, but a number of factors indicate that there will be substantial upward pressure on prices throughout the seventies. World-wide demand for both capital and natural resources is likely to become even stronger over the next ten years and, unless big advances in technology and exploration contribute on the supply side, competition will intensify and the costs of these factors of production will be bid up.

Fuel to the Fire

Consumer demand, too, promises to add fuel to the fires. Those moving into the 24-34 age groups spend much more freely than their elders, and many earn good salaries. Other factors strengthening inflationary bias are (1) the increasing social security and medical benefits, (2) only about 20 per cent of Canadians are old enough to remember the effects of a serious depression, and (3) the remaining 80 per cent seem less concerned with saving for difficult times.

Government spending in the fifties and sixties produced an intersting pattern. Federal defence expenditures on the Korean War were decisive in the early fifties but for the rest of the decade, increases were moderate except for a slightly sharper rise in 1958. This moderation continued until the mid-sixties after which the slope steepens moticeably. Acceleration in government spending came mainly in social welfare and transfers to other levels of government; the fastest growing transfer items were in health, education and welfare.

At the provincial and local level, the rise in government expenditures was more rapid than at the federal level during both decades. In addition to disbursements for health and welfare, major investments had to be made in the school system, in roads (as the number of motor vehicles increased from 2 6 million to 8 million) and in providing services for new housing.

While primary and secondary school enrollment has passed its peak, there will continue to be substantial pressure during the seventies on university facilities. In addition, regeneration of cities will be expensive and there will be little let-up in health and welfare, particularly in view of the advent of medicare and the need to combat poverty. The control of pollution and the transport boom will also need heavy expenditure, so that, all in all, the decade of the seventies is likely to witness ever growing government spending.

Erratic Rise

In the private sector while consumer spending is expected to continue to rise, business gross fixed capital formation, on the other hand, has been more erratic. In the early fifties, strong demand forces and the need to re-tool after the war produced several years of rapid growth in investment. After a pause in 1954, the discovery and development of new natural resources again sent investment steeply up. Then came a longer correction that lasted into the early sixties before, once again, capital formation gathered steam to rise to new heights.

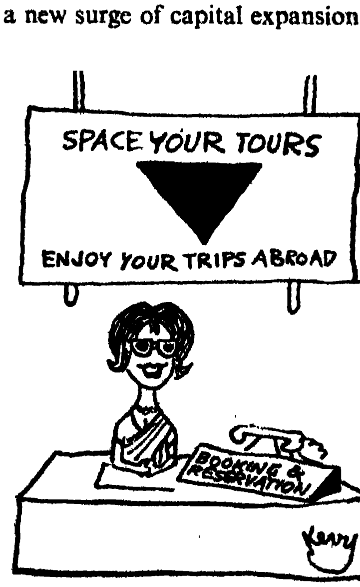
During the last few years Canada has seen a pause somewhat similar to that at the end of the fifties and the beginning of the sixties. Is capital investment once more poised for a take-off? There are many indications that it is, and that once anti-inflationary restraints are relaxed the seventies, like the fifties and sixties, will be years of strong investment growth. The rate of technological advance in the fifties, and more particularly in the sixties, was rapid, and the coming decade should see many of the results, especially in such fields as transport and communications. The opening of the Arctic and the rising market for British Columbia's natural resources will also involve substantial capital outlays. In housing, the expected increase in family formations will ensure high demand for residential capital.

In international trade, Canada's record in the sixties was much better than in the fifties. During the early fifties, postwar reconstruction and the Korean conflict produced rapid expansion of exports but at the same time the surge in capital investment resulted in heavy imports of machinery and equipment. As the decade wore on, other sources of supply were built up around the world and Canada's competitive position deteriorated. In addition, the inflow of foreign investment created a strong demand for Canadian dollars and, with a floating exchange rate, the currency went to a premium in world markets and the competitiveness of Canada's exports was further undermined.

Substantial Deficit

In 1962, the Canadian dollar was pegged at US 92½ cents and the trade deficit narrowed. In 1965, exports further brightened after the negotiation of the auto pact with the USA, and in the succeeding years motor vehicle shipments to the USA were the main impetus to strong export growth. Imports, however, continued to increase rapidly in response to the sustained rise in capital spending, and so the deficit remained substantial. In the late sixties deterioration of the world wheat market affected exports but imports responded even more to the virtual stagnation of investment, and in 1968 Canada almost won a surplus for the first time since 1952.

It is difficult to predict the course of Canada's foreign trade in the 1970s. The outlook for wheat, at least for the immediate future, is not bright and the initial impetus of the auto pact is nearing its end. On the plus side, arrangements have been made for the sale of vast quantities of raw materials to new buyers, and the content of Canadian exports is towards more fully manufactured goods for which demand should be steadier and more buoyant. As a corollary, Canada's dependence on foreign machinery and equipment should lessen so that even in the face of a new surge of capital expansion, the



gap between imports and exports should remain reasonable.

What does all this add up to for Canada in the seventies? Despite the current array of problems, Canadians are optimistic. Canada's population mix and improved levels of training and education point both to a strong sustained level of demand, and also to increases in productivity that will help to improve supply. The Canadian economy will continue to rely heavily on natural resources but manufacturing should become increasingly sophisticated and account for an ever larger share of total activity. The rising emphasis on social problems that appeared in the sixties will continue in the seventies and social improvements will constitute a major claim on resources. All in all, the demands on the economy will be heavy but Canada is one of the world's most richly endowed countries with both natural and human resources and, once the disruptive forces of inflation have been conquered, Canadians can, on the whole, look forward with confidence to another decade of new records.

Towards West European Federalism?

E. B. BROOK

VIENNA:

Now THAT the European Common Market has, unexpectedly soon and by its usual crisis method of an all-night marathon bargaining session, agreed that, in five years' time, the European Parliament of Strasbourg will have control of 3.5 per cent — some £ 60 million — of the Market budget for administration and information costs only, the base appears to have been set for a west European federal structure.

As usual, also, with the Market, the base is a complex of compromises. The French, who dislike superanational supervision even of a mere 3.5 per cent of revenue, waived their objections and gave way to the insistent Dutch in return for a full assurance of continued Community support for French farmers. The Italians, demanding price support mechanisms, were assured that the Market farm prices support machinery would be extended to wine and tobacco. The West Germans got a ceiling placed on the Market's spending for structural changes in agriculture and, since the Market financial regulations were finally settled in detail, the French withdrew their last political veto to membership negotiations with the British.

With the Market's Council of Ministers retaining control of 96·5 per cent of the Community's immense budget and the European Parliament remaining a collection of nominees of its member governments, the European Community's financial controls can scarcely be described as democratic yet but an element of diminishing autocracy has been introduced that may grow if and as the Market expands.

Negotiations with Britian are expected to begin about the middle of the year and the whole pattern in west European mercantile policy is becoming one of change and development. Jointly with the British, the Danes, the Norwegians and the Irish will be negotiating with the Market for membership; the number of the Market's associates is growing fairly fast; its first treaty has been concluded with a communist government—Yugoslavia; Parallel to these developments the Scandinavians, with Iceland and Finland (all members or associates of EFTA) have formed themselves into a more closely concentrated trading group entitled Nordec and EFTA has admitted Iceland to membership.

The growth of the Market is thus both actual and potential. The new Nordec union which will become fully effective in December 1974, after a gradual scaling down of tariffs among its members will almost certainly develop a consolidated market and make it easier for the group as a whole to join the Market when mutual circumstances are appropriate.

The prospect is thus of growing west European economic unity which leads to the possibility of a merger between the really big blocs — the Market and the European Free Trade Association with its headquarters in Geneva. Of this merger there is as yet no sign. The Market grows fast, EFTA slowly. Important members of EFTA are seeking membership of the Market. If Britain, Denmark and Norway are admitted to the Market, EFTA will presumably lose these three members. Of the remaining four members, Sweden, Iceland and Finland are now also constituents of Nordec union, Austria is still negotiating for an association with the Market and would leave EFTA, which leaves only Portugual with no group membership outside EFTA. Some authorities put the Market-EFTA merger as far ahead as 1980 but, given British success in Brussels in the next two or three years, it might seemingly come much earlier.

If the merger takes place or the Market grows significantly by associations the west-east European economic relationship must change. At present, with two and now three economic divisions in west Europe, the European

communist states are playing one group and one country against another in reaching trading agreements. There is no visible sign of any approach to a basis for trading understanding between west and east Europe but, with standards of living in east European countries rising, the accompanying emphasis on common European cultural and political interests will impel, if not compel, expanding trade between these areas. The Market is not undertaking a co-ordinated policy between its members towards east Europe for another three years but political events may compel a shortening of that delay; in any event, establishment of an east-west trade policy is a very urgent undertaking for the west European countries.

Along with these politico-economic developments the Common Market's Commission is likely soon to approve a policy document setting out its first comprehensive industrial strategy. The proposals, which would give the Commission power over all its members, would embrace such matters as control over multi-national concerns within the Market area and over take-over bids from companies outside the Market. It would widely extend existing legal provisions of the Eurotom treaty and of the Coal and Steel treaty. Infractions of the Commission's control would be subject to jurisdiction and penalty by the European Court in Luxemburg.

Co-ordinating Efforts

The industrial strategy is expectde to go a long way to limit buy-national policies which at present restrict valuable contracts in heavy industry, communications and power installations to local suppliers. Duplication in research and a pooling of research efforts internationally in advanced technological industries would be provided for. On this point east European countries would be intensely interested. These countries have already given clear indications of wishing to share in and to contribute to advanced technological research in which many countries are spending heavily often only to duplicate work already carried out elsewhere. The Market would, in this aspect, have an opportunity to take a lead in co-ordinating all-European efforts and initiatives.

Indian Investment in Malaysia

K. K. G. NAMBIAR

INDIAN ENTREPRENEURS appear to find Malaysian climate congenial for investment. As many as 50 proposals received by the Indian High Commissioner in Kuala Lumpur from them to set up industrial ventures in Malaysia provide proof of this.

Already six Indian firms are engaged in the production of textiles, steel furniture, glass bottles, zinc oxide, precision tools and PVC insulated conductors in Malaysia. Other Indian units for the manufacture of electric fans, sewing machines, confectionery, talcum powder, electric motors and diesel engines have also been approved and their production is expected to commence soon.

What has attracted the Indian entrepreneurs to Malaysia is the liberal incentives being offered by the government. Foreign investments are guaranteed under Investment Guarantee Agreements. Malaysia's entry into the World Bank-sponsored Convention of International Disputes which permits foreign entrepreneurs to resort to the International Arbitration and Conciliation Centre to settle disputes offers additional protection to foreign investors in Malaysia. There is no restriction on repatriation of capital and remittance of profits and dividends within the sterling area. Restriction on remitting capital outside the sterling area is only nominal. Rules pertaining to double taxation are flexible. In addition to these advantages, a wide range of fiscal and other incentives are available.

The newly formed Capital Investment Committee will streamline investment procedures and remove delays in the approval and implementation of projects proposed by the foreign investors. The committee will also review and coordinate industrial development policies of the government.

These measures aimed at attracting private investments — foreign and domestic — have been prompted as the two pillars of Malaysia's economy, tin and natural rubber, have been in danger during the past few years (known reserves of tin are running out and natural rubber is being steadily humbled by synthetic rubber). The Government of Malaysia is keen to diversify the nation's economy so that absolute reliance on tin and rubber can be reduced. The private sector is therefore assigned a key role and the total private sector investment during 1966-70 is expected to be \$6,160 million (Rs 46220 million).

Till recently, diversification of the economy mainly meant introduction of oil palm but since early plantings are coming into bearing, oil prices have been sharply declining. The emphasis therefore today is on expanding the industrial units that will produce steel, a variety of light engineering, mechanical and electrical goods and processed foods which will save and earn foreign exchange and also provide employment to the people.

Growing Opportunities

The present emphasis on industrialisation offers growing opportunities for India in Malaysia. It is no exaggeration to say that India possesses sufficient knowledge and experience in the field of industrial development which a developing country such as Malaysia will find useful. The initiative rests with India. It has to locate the areas available and step in. A number of fields are still available for joint ventures by the Indian manufacturers with the Malaysian parties. They are: light engineering goods, sugar refineries, pulp manufactures, textile machinery, steel foundry, timber-based industries, small tools, bicycle parts, footwear, leather goods, spectacles, ball-point pens, etc.

Recently, the Government of Malaysia increased the import duty of a number of items ranging from chocolates and cocoa to cooking ranges. Increased duties have also been imposed on imported vegetables, meat and fruits to meet the severe competition from China which has been dumping its canned products on Malaysian market to the detriment of local products. The government has offered 'pioneer' status or investment tax credit if a modern plant is established to manufacture these products. Other items on which import duties have been increased are: weighing machines and scales (from 15 to 50 per cent) and wooden and steel furniture (from 30 to 50 per cent). Diesel engines and certain types of motor pumps which were duty-free hitherto are now subject to import duty of 35 per cent. Light vessels and boats weighing less than 25-ton gross hitherto duty-free are now subject to 25 per cent import duty. Telephone equipment, locks and padlocks which enjoyed duty-free import duty would now be subject to 40 per cent duty. The government has also offered 'pioneer' status and tax incentives if units are set up to produce some of these items.

A group of Malaysian businessmen is in search of suitable foreign partners to put up a plant in Kuala Lumpur for the production of frozen pineapple, punch and citrus juice concentrates for export. The plant will have a capacity of 2,240 pounds per hour. Interested

Indian parties can explore possibilities of entering this field also.

A trade delegation from Malaysia which had visited India last year had called upon the Indian entrepreneurs to be more earnest and active in setting up joint ventures in that country. The delegation had suggested to the Indian government to set up an Export Bank of India to help the export of capital equipment for joint ventures and also provide investment support to joint ventures. The Government of India should consider this suggestion as an incentive to Indian parties to set up joint ventures abroad.

There are other areas too available for India to contribute her mite to Malaysia's economic transformation. Malaysia today grapples with the problem of shortage of skilled and trained manpower. Till recently, the economic scene in Malaysia was dominated by family owned or one-man business. No attention was therefore paid to managerial and technical training. But today the corporate sector dominates the economic scene which calls for trained and scientific management and also adequate technical training to operate industrial projects. It is stated that there are about 4,000 expatriate professionals working in the public and private sectors and within the next two to three years the Malaysian government wants to replace them by Malaysians under the Malaysianization programme. A well thought out and planned programme by India to impart technical and managerial training to a good number of Malaysians will be a worthwhile contribution by her.

Vast Scope

Further, there is vast scope for India to increase her exports to Malaysia. India has an unfavourable trade balance with Malaysia. India's exports to Malaysia declined to Rs 7 crores in 1968-69 from Rs 30.40 crores in 1963-64. In 1968-69, India imported goods worth Rs 7.70 crores from Malaysia. Although, India is in a position to supply a variety of engineering, electrical and mechanical goods and machinery, not to mention a number of consumer goods such as drugs and pharmaceuticals, confectionery, textiles, footwear, radios, processed foods etc., Malaysia imports them from western countries and Japan. At a time when India's machine tools industry is faced with the problem of inadequate internal market, India hardly exports any machine tools to Malaysia. Malaysian market is dumped with Chinese machine tools and lathes which find their entry mostly through Hong Kong. Chinese lathes are said to be very popular in Malaysia.

Malaysia's import of non-traditional goods from India is very insignificant. Items like iron and steel products, transport equipment, glass, rubber tyres, wire ropes, textile machinery, batteries, railway vehicles, trucks, buses, mechanical handling equipment, refrigerators, water coolers etc., which Malaysia imports in large quantities hardly figure in the list of goods imported from India. The major suppliers of these items continue to be the UK, West Germany, Japan and China and recently east European countries have also been trying to penetrate into Malaysian market. The need for India to improve her position here is obvious.

Japan is emerging as an important trade partner of Malaysia. She is supplying Malaysia a wide range of engineering and consumer goods. Japan's exports to Malaysia totalled Rs 698 million in 1968 against Rs 578 million in 1967. Other new entrants in the race are: Australia, the Netherlands and Canada. Australia is concentrating more on joint ventures while Canada is helping Malaysia in developing her mining industry. Dutch agricultural economists, scientists, engineers, surveyors and sociologists have begun to work out a 20-year development plan for the State of Tregganu.

While, with the setting up of six joint ventures, India has made a good beginning towards gaining a significant economic footing in Malaysia, she is trailing far behind other countries. The 50 proposals mooted by Indian entrepreneurs for setting up joint ventures therefore needs to be taken up for implementation without delay. Here it is necessary to stress that all parties involved should display a flexible and enlightened attitude.

The Indian industrial exhibition which will be held in Kuala Lumpur from March to May 1970 offers India a good opportunity to project the image of her industrial development and ability to assist Malaysia in her bid for rapid industrialisation. The recent decision of the Government of Malaysia to permit nationalised Indian banks to carry on business till they are able to reorganise themselves to conform to the laws of the country provides ample evidence of its goodwill for India. A good climate for intensifying India's economic and trade relations with Malaysia therefore exists. India should take the advantage of it.

The moving finger writes

WHETHER God is in his Heaven or not, Mrs Indira Gandhi has managed to remain at the South Block. It has to be presumed therefore that all is right with the world. This, at any rate, is the line which the present government at the centre is now selling to the country with all the resources of high pressure salesmanship which it is able to command. It is therefore not surprising that the President's address to the joint sitting of the two Houses of Parliament, at the commencement of the present budget session, has made a big effort in the general direction of presenting a complacent view of the present state of the country and the prospects before it.

As was to be expected, the address has made much of the fact that agricultural production continues to fare well, while industrial production is staging a come-back after the recent recession. I am not saying that the government cannot make legitimate propaganda use of these positive trends in the economy, but it is not quite honest, surely, on the part of the powers that be to put forward a one-sided picture when the other side happens to be of even more basic importance or relevance.

The President's address, on this occasion, is the first formal general policy report on the part of the Government of India as the nation enters the seventies along with the rest of the world. This is a grave enough occasion for those who are responsible for the address to attempt an earnest appraisal of the state of the country in terms of the need that there is for our government and our people to learn from the mistakes of the past so that the disappointments and frustrations of this period may not be repeated in the years ahead. The President, no doubt, spoke of the importance of production and productivity even as he emphasized the urgency of a just and equitable social order. Nevertheless, the address, whether in its substance or style, certainly did not convey adequately the depth and range of the problems of historic poverty, growing unemployment and arrested industrial growth which the country faces today and which those who claim to govern it must now endeavour to consider and deal with in a spirit of objectivity and realism.

Again, it is not only in the economic field that the President's address has opted for the language of euphoria. In the vital domain of the political state of the country, the President's address has chosen to be prudent rather than valorous. Despite its mention of the spirit of violence that is apparent, it has been clearly reluctant to come to grips with the nature of and the threats implicit in the political situation prevailing in certain parts of the country where the democratic freedoms and even bare physical safety of citizens are being increasingly exposed to politics of sabotage and even insurrection. The President's plea for peaceful political behaviour, while virtuous in itself, is surely out of tune with the ugly realities of the politics of violence which has been adopted as a calculated political strategy by certain political parties for devitalising or even destroying our democratic resources and undermining our parliamentary institutions.

While it is neither easy nor indeed necessary to try to forecast now what the political fortunes of the present government at the centre may turn out to be during this budget session, there is no denying the fact that Mrs Indira Gandhi is safer and more secure now in her prime ministership than she ever was since the Bangalore session of the AICC. At the level of state politics where most of the battles of the split Congress have been fought in recent months, the Prime Minister has been largely successful in defeating the efforts of the Nijalingappa group to consolidate itself in disputed areas. It may be that the Charan Singh ministry in Uttar Pradesh has still a number of bridges to cross and it is true, of course, that this ministry cannot, by any means, be regarded as a creature of the Indira Gandhi group. Nevertheless, the displacement of Mr C.B. Gupta from the chief ministership has clearly diminished such anxieties as the Prime Minister may have had regarding the support she may expect from members of Parliament elected from Uttar Pradesh on the Congress ticket in the last general election.

In the case of Bihar, her gain has been of a different kind. The moral here is that Mrs Gandhi and her advisers have displayed striking political skills in hammering out a working coalition of political groups or forces in the state. This may be an important step in such strategy as they may have for forging electoral alliances when the next general election comes round. Granted that neither faction of the Congress has a chance of acquiring a dominant position in a new Parliament, the capacity of leaderships to organise marriages of convenience among political parties should clearly become a critical factor in determining the political prospects of the various parties contending for power. The indications, so far, are that the Indira Gandhi faction seems to possess this talent to a greater extent than the leadership of the Organisation Congress. In fact, it could be said that, if the latter group fails to develop initiatives during the next month or so, it would have suffered grievously in the battle for the control of the apparatus of government or the affections of the electorate.

Even those who may not be enthusiastic about the complexion of Mr C. Subramaniam's current politics will readily grant that he is an intelligent policy-maker and able administrator who could be an asset to any government. Given, especially, the composition of the central government at present, there can be no gainsaying the fact that it would stand to gain considerably in competence through Mr Subramaniam being included in it and given an important portfolio. This does not, however, mean that public opinion should accept without protest the methods that are reportedly being adopted to secure his nomination to the Rajya Sabha so that he may be appointed as a minister.

It is being suggested in some quarters that Mr Subramaniam is not merely willing but is quite anxious to bargain with the DMK for its support to his candidature to the Rajya Sabha. Since the Indira Gandhi faction commands very few votes among the Congress members of the Tamil Nadu legislature, Mr Subramaniam would, in fact, be settling for being nominated to Rajya Sabha by the DMK. He, however, claims to be the leader of the Indira Gandhi Congress faction in Tamil Nadu and is therefore, in formal terms, one of the principal political opponents of the DMK in Tamil Nadu. How can he hope to retain this status in the eyes of the public, if he is to be elected to the Rajya Sabha by courtesy of the DMK?

Mr S. P. Aditanar, who was until recently holding the portfolios of Transport and Cooperation in the DMK ministry in Tamil Nadu, was relieved of his charge of Transport, according to an official announcement made on February 19. Mr Aditanar's administration of Transport had been under fire for some time and one of the criticisms levelled against him, strangely enough, was that he was trying to run nationalised road transport services on commercial lines with an eye to profit. It is not known what precisely were the considerations which prompted the Chief Minister, Mr Karunanidhi, to take Transport away from Mr Aditanar. If such a situation had arisen in the Congress party, there would have been no dearth of "inside" stories or "inspired" reports circulated by leading members of the party itself about the situation of or reasons for the change in the minister's assignment. As against this, it has not been easy to get any DMK member of Parliament in town to comment on the Tamil Nadu Chief Minister's decision relieving Mr Aditanar of the portfolio of Transport. The curious inquirer has to be satisfied with the bland reply that the Chief Minister had simply acted in the democratic faith that the people should have no cause for grievance where the running of nationalised road transport undertaking, with which the public in its everyday life is intimately concerned, is involved.

It is however not only the politicians of the DMK who have chosen to be discreet. The newspapers in Madras City have certainly been in no hurry to probe behind the scenes. This, at any rate, has been the case with *The Hindu*. In fact, that extremely prudent paper was at its cautious best even in presenting a routine report of the incident. The relevant headline coyly refrained from even mentioning that Mr Aditanar had been relieved of the Transport portfolio. It merely stated that "Sadiq Pasha (another minister) Takes Over Transport." *The Hindu* has an extremely articulate political correspondent in New Delhi, who writes column after column every time any prominent politician of either faction of the Congress happens to sneeze or smirk and goes into an analysis in depth of what political meaning those sneezes or smirks may have. But when it comes to the ruling party in Tamil Nadu itself, *The Hindu* seldom exhibits interest in going after the news behind the news. It seems to me that, Mr Inder Gujral notwithstanding, the independence and freedom of the press is safer with New Delhi than it is in some of the state capitals. I do not believe that *The Hindu* would ever write as fiercely against the DMK as it often does, say, against the political happenings in West Bengal. Nor for that matter do I believe that *The Times of India* would come out as clearly and firmly against the Shiv Sena as it may against anti-social elements in Kerala or Andhra— and Tamil Nadu and Maharashtra, let us remind ourselves, are not yet states which are under the rule of communist parties.

V. B.

Trade Winds

SUGAR MILLS IN U.P.

Mr Charan Singh, Chief Minister of Uttar Pradesh, announced the appointment of a three-man committee on February 21. This committee has been asked to suggest the form as well as the procedure to be adopted for the takeover of sugar mills in the state. Mr Virendra Verma, Minister for Irrigation, has been appointed as chairman of the committee. He will be assisted by two other members— Mr Prithvi Nath Seth, MP and Mr Genda Singh, MLA. The Chief Minister also indicated that he did not think that there would be necessity for the state government to consult the centre on the issue. He said the centre had earlier informed the state government that it was competent to take over sugar mills. The state government has also recommended to the centre to fix the price of sugarcane at Rs 10 per quintal with immediate effect as recommended by the Sugarcane Development Board. Mr Charan Singh emphasised that this measure was necessary to ensure remunerative prices to cultivators and to avoid fluctuations in sugarcane production.

TRAVEL ABROAD

The government of India has had under consideration for some time the question of making some relaxations in the regulations regarding release of foreign exchange for education overseas and for travel abroad. In the matter of foreign exchange release for those going for further education overseas, the following relaxations have been made:

(a) At present, a student is required to have obtained not less than 60 per cent marks in a degree examination in India to be eligible for release of foreign exchange. Hereafter, the qualifying marks would be lowered to 55 per cent.

(b) At present, no foreign exchange is released in favour of any person unless he had passed a degree examination in India (with a minimum of 60 per cent marks now lowered to 55 per cent). It has now been decided that for all those fields of study where a degree course does not exist in India nor is an adequate diploma course available, foreign exchange will be released without insisting that the student concerned should be a graduate.

(c) At present, a student who goes abroad for further studies and who wins a foreign scholarship is required to curtail, to the extent of the value of the scholarship, the quantum of remittances from India. It has been decided that, in future, no such curtailment in remittances from India need be made if the value of the scholarship earned abroad is for an amount not exceeding £300 per annum. Where the amount exceeds £300, the adjustment need be made only for the portion in excess of £300.

In view of the high cost of education overseas and the need to provide some assistance to meritorious students, the government has decided to introduce a scholarship scheme under which 50 scholarships will be awarded every year. Further details about the scheme in regard to the amount of the scholarship, the courses for which they would be admissible, the form of application, the criteria for their award etc. are being separately worked out by the Ministry of Education and these details will be notified separately.

In respect of travel abroad, the government has decided that all those who have not been abroad for a period of three years will be exempt from the operation of 'P' form control in respect of one visit abroad. For such a visit, no sponsorship declarations will be required nor will it be necessary for the person concerned to indicate who would be the host abroad. The period of three years will be reckoned backwards from the date of commencement of the proposed visit abroad. Thus, anyone who has not been abroad since March 1, 1967, would be in a position under this rule to make a trip of his choice commencing March 1, 1970. Likewise, for later dates, the period of three years will be similarly reckoned backwards on a date to date basis. This facility would be in addition to the travel facilities already admissible under the present 'P' form regulations.

Those going abroad under the above scheme and travelling by Air-India will be given foreign exchange equivalent to $100 for the entire trip by the Reserve Bank of India.

The following other relaxations of a general nature have been allowed:

(a) In the matter of travel abroad to attend conferences, in future, there would be no restriction on numbers when there is hospitality from an institutional source in respect of the expenses of the stay abroad.

(b) In future, anyone who goes abroad will have the discretion to spend an additional 15 days abroad on his own. This could be utilized to make *en route* halts or to visit nearby countries. No additional foreign exchange will, however, be released for the extended period.

(c) Visits abroad of sportsmen who have attained a certain minimum standard as adjudged by the competent sports body will also be liberalised.

(d) The present restriction about wives not being allowed to accompany their husbands for conferences or business visits and the like will be somewhat relaxed so that, in appropriate cases, the Reserve Bank would give foreign exchange facilities also for the wives.

The changes indicated above will become effective from March 1, 1970, from which date the Reserve Bank of India will entertain applications on the revised basis.

Procedurally, it is being arranged that the foreign exchange release of $100 indicated above as also the facility to make remittances in favour of students who go for education overseas will be delegated by the Reserve Bank of India to a number of banks all over the country. The basic objective is that, within a short time, these facilities would be available locally in every city with a population of 100,000 people or more. The procedural change is expected to come into force from April 1, 1970.

BUDGET SESSION BEGINS

In his inaugural address to the joint session of the two Houses of Parliament on February 20, marking the beginning of the budget session, the President, Mr V. V. Giri, reiterated the government's resolve "to go forward at a faster pace towards the achievement of a social order which is just and humane, by taking particular care of the weaker sections of the community and by ensuring that the meagre wealth of the nation is augmented by hard and dedicated work."

Mr Giri expressed optimism about economic outlook. The present economic situation in the country, he said, augured well for the acceleration of the pace of development. The price situation, Mr Giri observed, had been held under control in the recent past. The food and the balance of payments situations were satisfactory. Industrial output was also picking up; the rise in industrial production in 1969 over 1968 is being estimated at over seven per cent. Particularly heartening was the fact that a large number of capital goods industries were also recovering from the recent recession.

The fourth Plan, the President said, would be finalised soon. It would reflect the broad parameters of the government's economic policy which are to increase production, effect better distribution of wealth and open up in an increasing measure income-generating opportunities for employment. On the agricultural front, special emphasis, Mr Giri said, would be placed on the problems of dry areas, rural electrification and land reforms. In the industrial sector, three fields of activities — manufacture of steel, oil exploration and production of fertilizers — would receive special emphasis. The development of small-scale and ancillary industries would also be encouraged. The government's licensing and financial policies would seek a co-ordinated development of large and small-scale industries. Another important direction in which efforts would be made, Mr Giri said, was the promotion of industries in backward areas.

Unemployment, the President said, was the most serious problem facing the economy at present and effective solution to it had to be found. To improve the situation, he indicated that a large rural works programme was proposed to be launched. Housing construction activity was also envisaged to be stepped up. The education programme in polytechnics had to be linked with practical experience in industry.

As a result of the nationalisation of banks, Mr Giri hoped, bank assistance for viable and productive schemes would flow in a greater measure to the weaker sections of the society. The President also laid a good deal of emphasis on the family planning programme.

The more important legislative business to be pushed through the current budget session, Mr Giri indicated, included : (*i*) a bill to replace the recent ordinance renationalising 14 commercial banks; (*ii*) the Foreign Assistance (Regulation) Bill; (*iii*) the Crop Insurance Bill; (*iv*) the bill to establish a Newspaper Financial Corporation; and (*v*) a bill to set up an autonomous statutory corporation for the management of the four international airports in the country. The government, Mr Giri said, would also be bringing in legislation to abolish the privy purses and privileges of the rulers of former Indian states.

STATE BUDGETS

Andhra Pradesh budget for 1970-71 has disclosed a deficit of Rs 0·47 crore on revenue account. Taking capital transactions and public debt into account there will be an overall surplus of Rs 14·30 crores. No new taxes were proposed by the Finance Minister, Mr K Vijayabhaskara Reddy, who indicated that he expected additional revenues from the scrapping of prohibition in the Andhra area.

The budget estimates indicate total revenue at Rs 265·96 crores and revenue expenditure at Rs 266·43 crores in 1970-71. The budget provides an outlay of Rs 10·20 crores during the year on the Nagarjunasagar project and provides Rs 54·60 crores for education. A sum of Rs 115 lakhs has been provided for old age pensions. The state's annual plan for 1970-71 will have a total outlay of Rs 77·39 crores. The Plan outlay is likely to be augmented by Rs 15 crores later for special de-

velopment of Telengana, Rayalaseema and other backward regions. Of the total Plan outlay for 1970-71, Rs 29·50 crores will be spent on Telengana and the rest on Andhra region.

The 1970-71 budget of **Gujarat** presented to the state assembly by the Gujarat Finance Minister, Mr Jaswant Mehta, indicated an overall deficit of Rs 8·70 crores. The budget estimates revealed a revenue surplus of Rs 4·18 crores. Revenue receipts were estimated at Rs 193·12 crores and expenditure at Rs 188·94 crores. In order to cover the deficit partly, the state Finance Minister has recommended a rise in the rates of taxation on urban land and building and increased sales tax on aviation motor spirit and high speed diesel oil. The sales tax on aviation motor spirit has been increased from five paise to seven paise a litre; in the case of high speed diesel oil, the sales tax has been raised from 5 paise to 6 paise per litre. It has been estimated that the change in tax on aviation spirit will yield Rs 4 lakhs additional. In the case of high speed diesel oil, the increase will be of the order of Rs 29 lakhs. The revised taxation rates on urban land and buildings are expected to yield an additional income of Rs 32 lakhs.

The **West Bengal** Budget for 1970-71 presented on February 20 to the state assembly by Chief Minister Mr Ajoy Mukherjee, showed an overall deficit of Rs 15·51 crores. The opening balance was negative at Rs. 25·06 lakhs with the result that the overall closing balance for 1970-71 was estimated at negative Rs 40·57 crores. No additional taxation measures were proposed by Mr Mukherjee in order to wipe out the deficit. The plan size for 1970-71 is proposed to be increased to Rs 58·63 crores as against Rs 51·36 crores in the current year. The overall deficit of Rs 53·67 crores as indicated in the budget estimate for 1969-70 presented in July last year came down to Rs 25·06 crores due to (*a*) increased devolution of Rs 21·46 crores as recommended by the fifth Finance Commission for the current year, (*b*) reduction in plan expenditure, and (*c*) additional taxation. Mr Mukherjee stated that the government intended to enact such additional tax measures during the fourth Plan period as would yield a total revenue of about Rs 80 crores.

EXPORTS FALTER

As against the fourth Plan target of expanding exports by seven per cent per annum, exports during the first eight months of the current financial year i.e. between April and November, 1969, at Rs 921·8 crores recorded an increase of only 0·87 per cent over the figure of Rs 913·8 crores for the corresponding period last year. Some of the major commodities the exports of which showed a decline were tea, oilcakes, castor oil, sugar, cashew kernels and iron and steel.

As many as seven causes are said to be responsible for the deceleration of exports this year. These are:

(i) As a consequence of the restrictive trade policies pursued by some of the major developed countries for balance of payment reasons, the rate of growth of exports from developing countries during the first three quarters of 1969 was only nine per cent, even though world exports had gone up by about 14 per cent as against 11 per cent in 1968 and about eight per cent projection by the World Bank in its latest report

(ii) Revival of domestic demand as a result of the green revolution and pick-up in industrial activity led to considerable reduction in exportable surpluses especially of several categories of iron and steel (H.R. strips, C.R. strips, billets, skelp etc), sewing machines, sugar, non-essential vegetable oils etc.

(iii) Inadequate expansion of industrial capacity during the past few years.

(iv) Losses in production as well as movement of export consignments due to industrial unrest.

(v) Shortage of certain industrial raw materials such as particular varieties of iron and steel (mentioned above) as well as non-ferrous metals.

(vi) Steep rise in the prices of industrial raw materials leading to increase in cost of production. The extent of increase in industrial costs can be gauged from the fact that the price index for industrial raw materials (1961-62; 100) rose from 163·4 as on December 21, 1968, to 175·3 for the week ending December 20, 1969. Between these two dates the price indices of chemicals rose from 172·5 to 188·9, of intermediate products from 146·6 to 162·5, and of fuel, power, light and lubricants from 148·9 to 155·7.

(*vii*) Sharp fall in both the volume and unit value of tea exports. Between April and October, 1969, the unit value of tea exports went down by 10 per cent. The volume of tea exports decreased by 15 per cent.

Following this disturbing trend on the export front, a crash programme for exports has been launched recently. The main components of this programme are : (*i*) the speedy removal of obstacles in the way of exports; (*ii*) encouraging of exports ex-stock and from scheduled production ; (*iii*) encouraging of fuller utilisation of capacity through making available adequate supply of raw materials (either imported or indigenous) and other essential inputs; (*iv*) endeavouring through the state governments to improve labour-management relations; (*v*) entering into barter deals for specific commodities; (*vi*) expediting of movement, specially at the ports, of export consignments; and (*vii*) special marketing efforts by public sector as well as private sector enterprises.

An informal inter-ministerial committee has been set up under the chairmanship of Mr B. B. Lall, Additional Secretary, Department of Expenditure, Ministry of Finance, for sorting out all operational problems of the programme. Export procedures have now been streamlined and arrangements have been made for ensuring raw materials for production of exportable goods. Advance licences for imports of essential raw materials are also being granted and an *ad hoc* committee is looking into the question of relaxing the ban on imports of certain industrial inputs. The payment of drawbacks allowed for certain exports is being expedited.

TAX EVASION

The Government of India has recently appointed a committee of experts under the chairmanship of Mr K. N. Wanchoo, former Chief Justice of the Supreme Court, to examine and suggest legal and administrative measures to counter evasion of direct taxes. It will recommend concrete measures (1) to unearth black money and prevent its proliferation through further evasion; (2) to check avoidance of tax through various legal devices, including the formation of trusts and (3) to reduce tax arrears. It will also examine various exemptions allowed by the tax laws with a view to their modification, curtailment or withdrawal. It will also indicate the manner in which tax assessment and administration may be improved for giving effect to all its recommendations. The members of the committee are: Mr M.P. Chitale (chartered accountant, Bombay), Mr S. Prakash Chopra (chartered accountant, Delhi), Mr P.C. Padhi, former member of the Central Board of Revenue and at present Deputy Comptroller and Auditor-General and Dr D. K. Rangnekar, economist. Mr S. Narayan, Commissioner of Income-tax will be secretary of the committee.

TEXTILE MILLS' EXPANSION

The expansion of the cotton textile industry during the fourth Plan period, it is understood, will be confined primarily to the addition of spindleage to the existing non-viable or unbalanced units. No new unit will be licensed, except in replacement of a scrapped one. There are 40 units in the co-operative sector and 182 units in the private sector with less than 25,000 spindles each. If they are to be made technically and financially viable by raising their spindleage to the economic level of 25,000, an investment of about Rs 125 crores would be called for. The total additional spindleage that would be needed to be installed in these units would be 2·5 million.

The main reason for restricting the growth of the textile industry is understood to be that the present 17·55 million spindles capacity can cater for the 1973-74 requirements of yarn. These spindles can produce about 1,160 million kgs of yarn. The requirements of cloth in the terminal year of the fourth Plan are estimated at 9,350 million metres, including 800 million metres for exports. To produce this quantity of cloth, the yarn requirements are estimated at 1,070 million kgs. Another 70 million kgs of yarn, it is estimated, would be required for other uses. So the total demand would be not more than 1,140 million kgs as against 1,160 million kgs present capacity. Further, effective steps are said to have been taken in regard to the addition of 1·15 million spindles for which industrial licences have already been issued. If some of the uneconomic units are scrapped, the new industrial units to come up in their place will raise the yarn manufacturing capacity further, leaving no scope for entirely new units to be established.

NAMES IN THE NEWS

The Prime Minister, Mrs Indira Gandhi, appointed on February 17, **Mr. Gulzari Lal Nanda** as the Minister for Railways and **Mr D. Sanjivayya** as Minister for Labour, Employment and Rehabilitation.

Mr Keshub Mahindra, Chairman of Mahindra & Mahindra, has been elected President of the Associated Chambers of Commerce & Industry of India in succession to Mr J. M. Parsons. The Associated Chambers of Commerce is an all-India organisation consisting of 12 Chambers of Commerce which together with their connected industrial associations represent the entire range of commerce and industry in India.

As President of ASSOCHAM, Mr Keshub Mahindra brings to this representative association a rich and varied experience in commerce and industry. A former President of the Bombay Chamber of Commerce, Mr Mahindra, who is 46 years old, has been intimately connected with the automobile industry for the past twenty years. He heads one of the largest groups of industries, and has made a significant contribution to the manufacture of tractors, tyres, elevators, industrial instruments, alloy steel and textile machinery, among other manufacturing industries.

Dr. T. R. Bhaskaran, Chief Technologist, Geo Miller and Co. Private Ltd., New Delhi, has been awarded the 1969 K.L. Moudgill Prize in recognition of his meritorious services to the cause of standardization in India. The prize was instituted by the Indian Standards Institution in 1958 to commemorate the distinguished services rendered by late Dr K. L. Moudgill, eminent educationist and standards engineer, who had made invaluable contribution to the development and strenghening of the standards movement in India. It carries a cash award of Rs 1000 and is given yearly to any citizen of India who may be selected as having rendered the most outstanding service to the cause of standardization in the country.

Company Affairs

UNION CARBIDE

UNION CARBIDE India Ltd. has earned increased net profit, after tax and before provision for development rebate, at Rs 3·15 crores for the year ended December 25, 1969, against Rs 1·89 crores in 1968. The provision for taxation is Rs 2.48 crores compared with Rs 52·5 lakhs in the previous year. General reserve gets Rs 2·28 crores and sinking fund reserve Rs 3 lakhs. With the announcement of a final dividend of 75 paise per share, absorbing Rs 61·42 lakhs (subject to tax), the full dividend for 1969 amounts to Rs 1·50 per share on the increased paid-up capital. The company issued rights and bonus shares, both in the ratio of 1:2 early in 1969, doubling the paid-up capital to Rs 8·19 crores. Sales have been higher at Rs 44·04 crores against Rs 33·95 crores. Working of the electrolytic manganese dioxide plant is progressing satisfactorily. The company has plans for commercial harvesting of shrimp and expects to begin trawling operations towards the end of 1970.

VOLTAS

The directors of Voltas Ltd, have recommended the payment of dividend on ordinary shares subject to deduction of tax at the rate of 7 per cent against 15 per cent in the previous year. This amount will be paid from general reserve which will absorb Rs 30.30 lakhs against Rs 64·94 lakhs in the previous year. The directors have also proposed the assurance of bonus shares in the proportion of one share for every 5 shares held. The reason for a sharp fall in profits of the company is the closure of sales offices and factory for a couple of months due to a slow-down strike. The directors hope that the turnover as also the profit would increase in 1969-70. The target of sales is estimated to exceed Rs 80 crores.

The company's sales were higher at Rs 68·27 crores for the year 1968-69 against Rs 67·59 crores for the previous year. The profit before depreciation, development rebate reserve and taxation amounted to only Rs 66·43 lakhs during the year against Rs 234·47 lakhs for the previous year. Depreciation gets Rs 55·87 lakhs against Rs 51·90 lakhs previously. Profit before taxation and development rebate reserve amounts to only Rs 10·56 lakhs against Rs 182·57 lakhs for the previous year. Rs 7·50 lakhs have been provided for taxation as against Rs 1·02 lakhs in the previous year. Development rebate reserve gets Rs 2·50 lakhs against Rs 3·50 lakhs in the previous year. Rs 2·92 lakhs have been transferred from development rebate reserve. This leaves only Rs 3·48 lakhs profit against Rs 77·07 lakhs in the previous year for appropriation.

CAMPHOR & ALLIED PRODUCTS

The directors of Camphor and Allied Products Ltd, have decided to maintain the distribution for the year ended December 31, 1969 at Rs 12 per share. The company has earned a gross profit of Rs 57·90 lakhs on a turnover of Rs 1·98 crores. The net profit is however lower at Rs 16·38 lakhs as compared to Rs 33·52 lakhs for the previous year on account of the need to provide for taxation amounting to as much as Rs 26·75 lakhs against no provision in the previous years. The provision for depreciation is Rs 9·54 lakhs. Development rebate reserve gets Rs 1·45 lakhs. Other allocations include Rs 7·60 lakhs to general reserve and Rs 2 lakhs to deferred taxation reserve. The proposed dividend both equity and preference, will claim in all Rs 6·92 lakhs. The carryover is Rs 1,874. The company manufactured during the year 571 tonnes of camphor against 554 tonnes in the previous year. The sale of camphor was 577 tonnes during the year. The company has marketed various new chemicals which it intends to manufacture in the expansion project. They are being manufactured at present on the pilot plant yielding a sales value of Rs 8·95 lakhs.

PREMIER CONSTRUCTION

Shareholders of Premier Construction Company Ltd, Bombay, will get a jubilee dividend of Rs 2 per share (Rs 50 paid-up) in addition to Rs 18 per share as regular dividend on their equity shares, the same as for last year. This has been rendered possible despite increased appropriations to depreciation and taxation thanks to the improved gross profit (higher by more than Rs 10 lakhs for the year ended December 1969 than for 1968). Total gross profit of the company is Rs 73·62 lakhs for 1969 compared with only Rs 63·61 lakhs for 1968. The company has decided to increase the face value of the share by Rs 10 from Rs 50 to Rs 60 by capitalisation of reserves.

LAKSHMI COTTON

The Lakshmi-Vishnu Cotton Mills Ltd, the management of which changed hands in September last, has turned the corner and the prospects for the current year 1970, are reasonably good, said Mr M. L. Apte, a director of the company at an extraordinary general meeting of the company in Bombay recently. Sales during 1969 have totalled Rs 8·30 crores, thanks to higher production and better realisation. The gross profit, subject to depreciation and taxation, is likely to be around Rs 50 lakhs. The company is pursuing the modernisation and renovation programme instituted by the previous management which is expected to cost Rs 60 lakhs. This is likely to be completed in two years. The State Industrial and Investment Corporation of Maharashtra Ltd is providing a loan of Rs 45 lakhs. Once this expansion is through the company's productivity is expected to be higher. It has now gone in for 500 ordinary looms which should give better stability to the company's production. The company has an up-to-date processing plant.

KHANDELWAL UDYOG

The preliminary working results of Khandelwal Udyog, for 1969 reveal sales turnover of Rs 56·40 lakhs against Rs 34·06 lakhs in the previous year and a modest profit of Rs 0·78 lakhs after providing for depreciation as against a loss of Rs 23·83 lakhs in the previous year. But for the fact that the costs have risen, the results achieved could still have been better. Apart from the working results, the significant landmarks are the substantial reduction in administrative expenses, inventory costs and interest charges and improved relations with customers. The order position also has materially improved.

KILLICK INDUSTRIES

Mr C. M. Mehta, chairman of Killick Industries Ltd, has told shareholders that Killick, Nixon and Co. Ltd, and A.R. Haselurer Ltd, which would be amalgamated with the company have fared well during the current year. The company is considering the possibility of manufacturing and dealing in fertilisers, chemicals and other allied products.

TIWAC INDUSTRIES

Tiwac Industries Ltd, which commenced production of clocks in 1967 has brought out new models to cater for the more aesthetic tastes. These models were released for sale recently at the company's factory at Dharwar. According to Mr A. R. Badarinarayan, chairman, the company is still not out of the woods and needs some financial assistance to make it a profitable concern. Mr Lalchand Hirachand, a director, has urged the Government of Mysore to help the company in the same way as assistance is provided by Maharashtra and other states.

NATIONAL BANK OF LAHORE

All branches of the National Bank of Lahore Ltd, started functioning at their existing premises as branches of the State Bank of India from February 23, according to Mr H. C. Sarkar, Secretary and Treasurer, State Bank of India, New Delhi. According to Mr Sarkar, every depositor of the National Bank of Lahore Ltd, will be paid the full amount of his deposit irrespective of the percentage of compensation payable to the shareholders. With the amalgamation of the National Bank of Lahore Ltd, the number of offices of the State Bank of India in Delhi circle increased to 245, of which 44 are in the union territory of Delhi.

NEW COMPANY REGISTRATIONS

One hundred and thirty-six companies were registered in the different states/union territories during the month of December 1969. Of these 133 were registered as companies limited by shares and the remaining three as companies limited by guarantee. The 133 companies limited by shares comprised 10 public limited companies and 123 private limited companies having aggregate authorised capital of Rs 47·70 crores and Rs 10·76 crores respectively.

Companies Limited by Guarantee : The companies limited by guarantee registered during the month were (1) Kandam-Kulathil Lopappan Charities, Kerala, (2) Inter-church Service Agency, Tamil Nadu and (3) the Church of God Trust Society of India, Tamil Nadu.

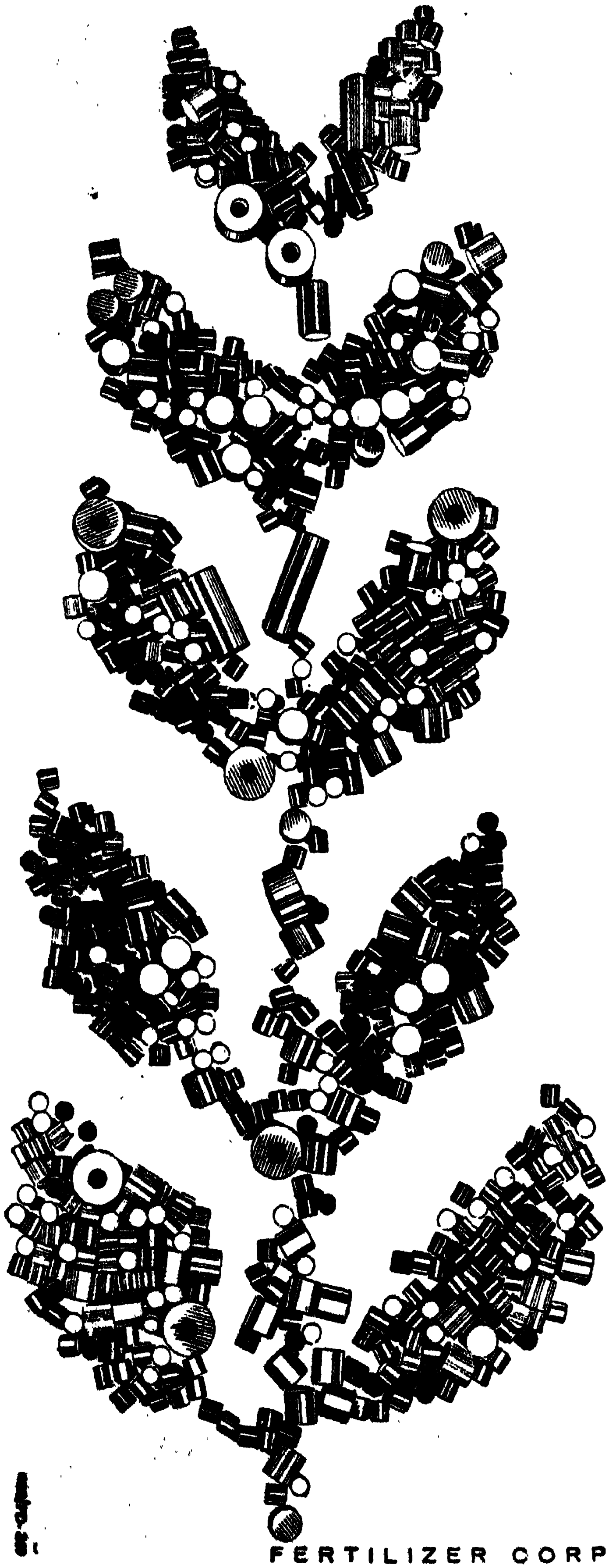
Companies Limited by Shares : One of the companies registered during the month was a government company which was registered as a private limited company in the state of Uttar Pradesh under the name of M/s Uttar Pradesh State Textile Corporation and had an authorised capital of Rs 3 crores.

Of the 133 companies limited by shares 79 companies would be engaged in "Processing & Manufacture"; 34 in "Commerce (Trade and Finance)" and the remaining 20 in miscellaneous activities. Eight of these companies were large-sized ones having an authorised capital of Rs 50 lakhs and over.

Of the new floatations of the month, 8 were in existence as firms prior to their incorporation as limited companies under the Companies Act, 1956.

As regards the form of management, 32 companies opted to be managed by managing directors and 59 by board of directors. The remaining 42 companies did not propose any form of management at the time of their incorporation.

New Registrations in November 1969 : During November, 1969, 126 companies were floated. Two of them were limited by guarantee and 124 were limited by shares



consisting of five public limited companies and 119 private limited companies having authorised capital of Rs 1·63 crores and Rs 10·26 crores, respectively.

LICENCES & LETTERS OF INTENT

The following licences and letters of intent were issued under the Industries (Development and Regulation) Act 1951 during the period October 26 to November 29, 1969. The list contains the names and addresses of the licensees, articles of manufacture, types of licences — New Undertaking (NU); New Article (NA); Substantial Expansion (SE); Carry on Business (COB); Shifting -- and annual installed capactty.

(DURING THE FORTNIGHT ENDED NOVEMBER 8, 1969)

Licences Issued

Commercial, Office & House Hold Equipment

M/s Kirloskar Brothers Ltd., Udyog Bhavan, Tilak Road, Poona-2., Sealed Compressors—Change of location from Kirloskarvadi (Distt: Sangli, Maharashtra) to Karad (Distt: Satara) Maharashtra.

Fertilisers

The Chairman & Managing Director, Fertiliser Corporation of India Ltd, New Delhi, Urea 3,30,000 tonnes p.a. (NU).

Leather, Leather Goods & Pickers

M/s Tamil Nadu Tanneries, Davidson Street, Madras-1., tanned sheep & goat skins. — 8 lakhs & Ten thousand, Nos. p.a. for the three units. (COB) M/s Madurai Dindigul Skins Syndicate, 9, Davidson Street, Madras-1, tanned goat & sheep, skins —COB. (4 lakhs, forty two thousand nos.) M/s East India Tanning Corporation, 9, Davidson Street, Madras-1., tanned sheep & goat skins. COB (16 lakhs 90 thousand) pieces p.a. for tannery 'A' and tannery 'B'.

Metallurgical Industries (Ferrous)

M/s Graham Firth Steel Products (India) Ltd., 16, Horniman Circle, Fort, Bombay-1., cold rolled steel strips— 7,200 tonnes p.a. (SE)

Chemicals (Other than Fertilisers)

M/s Asoka Mills Ltd, Naroda Road, Ahmedabad-2., heavy duty PVC sacks, (10 million p.a.) carrier PVC bags., (35 million p.a.) P.V.C. laminated jute bags. (3 million p.a.), Non-toxic rigid PVC film, (P625 tonnes p.a. (NA) M/s Rajesh Trading Corporation, 296, Samual Street, Bombay-3., heavy duty sacks from H.D. polyethylene — 5·5 million sacks p.a. (NU).

Drugs & Pharmaceuticals

M/s Chowgule & Co. (Hind) Pvt. Ltd., India House, Opp: G.P.O. Fort, Street, Bombay. gamma globulin etc., i.e. TABC vaccine —300,000 doses, Cholera vaccine — 300,000 doses. TABC-CH vaccine — 400,000 doses. Gamma Globulin, 25 kgs. (NA).

Change in Names

(Information pertains to particular licences only)

M/s Alta Laboratories Ltd to M/s Alta Laboratories Pvt Ltd.

M/s Sarabhai Merk Ltd to M/s Sarabhai M. Chemicals Ltd.

M/s Nationale Air Products to M/s Nationale Air Products Ltd.

Delton Cable Company to Delton Cable Industries Private Ltd.

Licences Revoked/Surrendered

(Information pertains to particular licences only)

M/s Camphor & Allied Products Ltd, P.O. Clutterbuckganj, Bareilly, (UP)—formic acid. M/s Bilaspur Spinning Mills & Industries Ltd, 5, Synagogue Street, P.B. No. 2166, Calcutta-1. —cotton yarn. M/s Dey's Medical Stores (Manufacturing) Pvt Ltd, 6/D, Lindsay street, Calcutta-16—Beserol tablets. M/s Jaipur Metals & Electricals Ltd, Near Railway Station, Jaipur-6—Polyvinyle Formal & Polyurethane Enamels.

(DURING THE FORTNIGHT ENDED NOVEMBER 22, 1969)

Licences Issued

Metallurgical Industries (Ferrous)

M/s Indian Oil Corp. Ltd, (Marketing Div.), 254-C, Dr Annie Besant Road, Prabhadevi, Bombay-25. (Tamil Nadu)—24-G Bitumen Drums. (5,00,000) nos. p.a. 18-G Lube & Other speciality Barris. (10,00,000) nos. p.a. (SE).

Telecommunications

M/s Semi Conductor Ltd, Radia House, 6, Rampart Row, Fort, Bombay-1, (Maharashtra) —Thermistor Varistors. 2 millions. (SE); M/s Murphy India Ltd, Dr Shirodkar Road, Off. Hospital Avenue, Parel, Bombay-12, DD. (Maharashtra)—Radio Receivers —7,00,000 nos. p.a. (SE).

Chemicals (other than Fertilisers)

M/s Alta Laboratories Ltd, Vissonji Park, Naigaum Cross Road, Dadar, Bombay-14. (DD). (Maharashtra)—2:4 Dichlorephenoxy Acetic Acid. (NA) Salt Esters & Amine. (1000 tonnes p.a.) (NA).

Dye-Stuffs

M/s Colour-Chem Ltd, Fort House, 221, Dadabhoy Naoroji Road, P.B. No. 1640, Bombay-1. (Maharashtra)—Resolin Blue GBL Paste — 86 tons p.a.; BLUE FBL Paste——10 tons p.a.; Resolin Red FB Paste—5 tons p.a.; Resolin Blue Green Paste—2 tons p.a. (Total—109 tonnes p.a.) (NA).

Textiles (Including those Dyed, printed or otherwise processed)

M/s Amansi Textile Mills Ltd, Mahmoodabad Estate Bldg., P.B. 176, Hazratganj, Lucknow (UP)—Spindles—13,474 for the manufacture of Cotton Yarn (SE).

Letters of Intent

M/s Kamani Metals & Alloys Ltd, Kamani Chambers, Nicol Road, Ballard Estate, Bombay-1 (Mysore)—Cold Rolled Steel Strips—8000 tonnes p.a. (NU); M/s Anil Steel & Industries Ltd, Near OTC, A/3/C Bari Park, Jaipur. (Jaipur) (Rajasthan)—High Carbon & Alloy Steel Strips—36,000 tonnes p.a. (NA).

Transportation

M/s Godrej & Boyce Mfg. Co. Pvt Ltd, Lal Baug, Parel, Bombay-12. (Maharashtra)—3-tonne electric Fork Lift trucks—(100 nos.) within the overall licensed capacity of 475 nos. p.a. (SE).

Sugar

M/s Sangamner Bhag Sahakari Sakhar Karkhana Ltd, Sangamner, Ahmednagar. Maharashtra. (Maharashtra)—Sugar-Cane Crushing capacity of 1250 tonnes cane per day. (SE).

Licences Revoked/Surrendered

(Information pertains to particular licences only)

M/s Dodsal Pvt. Ltd, Mafatlal House, Backbay Reclamation, P.B. No. 10102, Bombay-1—Pipe Specials; M/s N. K. Kerr & Co., 8/2, Kiron Sankar Roy Road, Calcutta-1—Cotton yarn; M/s Jivanlal Sons & Rathnam, 'Naranjan', 6th Floor, 99, Marine Drive, Bombay-2—Soya Vegetable Milk; M/s Delhi Cloth & General Mills Ltd, Bara Hindu Rao, Delhi-6—PVC Products; M/s Mithila Iron & Steel Co. Ltd, 29, Strand Road, Calcutta—Bars, Rods, including wire rods.

(DURING THE WEEK ENDED NOVEMBER 29, 1969)

Licences Issued

Chemicals (other than Fertilisers)

M/s Suhrid Gaigy Ltd, Wadi Wadi, Baroda. —Pthalic Anhydride—3,000 tonnes p.a. (SE).

Textiles (including those Dyed, Printed or otherwise processed)

M/s R. B. Bansilal, Abirchand Spinning & Weaving Mill, P.B. No. 6, Hinganghat (Maharashtra)—Cotton Yarn & Cloth. (20,688 spindles, 616 doublars, 398 looms) (COB).

Sugar

Shri G. A. Sarnobat, Chairman, Shri Datta Sahakari Galwa Khandsari Sakhar Utpadak Sanstha Ltd, Asurle, Tehsil Pankala, Kolhapur. (Maharashtra)—Sugar-Crushing Capacity 400 tonnes per day (NU). By shifting Machinery held by M/s Bhavnagar Sugar Mills Ltd, Dhola—Bhavnagar, Gujarat.

Letters of Intent

Metallurgical Industries (Ferrous)

M/s Gupta Industries, 3781, Gali Lohewali, Chawri Bazar, Delhi-6—high carbon steel strips. (3,000 tonnes p.a.) (NU); M/s Easten-Saws Pvt Ltd, 21, Industrial Estate, Birlanagar, Gwalior-4. (UP)—cold rolled high carbon & alloy steel strips—(4,800 tonnes p.a. (NU); M/s Metro Wood & Engg. Works Pvt) Ltd, Ashram Road, Navrangpura, Ahmedabad. 9. (Gujarat)—cold rolled strips. (only for tinning and further processing of strips)—(2,000 tonnes p.a.) (NU); M/s Special Steels Ltd, Dattapara Road, Borvili, (East), Bombay-66. (Maharashtra)—cold rolled tapes & strips—6,000 tonnes p.a.; C.R. spring steel strips & flats—4,000 tonnes p.a., (NA); M/s Shalimar Steel & Saws Ltd, 25, Ganesh Chandra Avenue, Calcutta-13. (Rajasthan)—hardened & tempered steel strips. (hardening & tempering only) 3,600 tonnes p.a. (NU); Shri S. C. Paul, Industrialist, 6-B, Bondal Road, Calcutta-19. (West Bengal)—cold rolled steel strips. (3,240 tonnes p.a.) (NU).

Industrial Machinery

M/s Needle Roller Bearing Co Ltd, B-16, Road No. 2, Maharashtra Industrial Development Corporation, Thana (Maharashtra)—(a) Needle Roller Assemblies in the form of Needle Roller Bushes—20,00,000 nos. p.a. (b) Loose Needle Rollers—20,00,00,000 nos.) or 20,00,000 nos. loose Assemblies p.a. (SE).

M/s New Standard Engineering Co Ltd, NSE Estate, Goregaon East, Bombay-63. NA. (Maharashtra)—Moulding Machines, Sand Slingers, Mix Mullers, Multi Mulls, Sand preparation equipment (NA).

Chemicals

M/s C.D.C. Chemicals, 6, Middleton Street, Calcutta-16. (West Bengal)—Nitro Cellulose—1,000 tonnes p.a. (NU).

Drugs & Pharmaceuticals

M/s Cynamide India Ltd, Dr Annie Besant Road, P.O. Box 6577, Worli, Bombay-18. (Maharashtra)—Myambutol Ethambutol Hydrochloride Tablets—25,00,000 tablets p.a. (NA)

Food Processing Industry

M/s Food Speciality Ltd, 3, Bahadur Shah Zafar Marg, New Delhi-1—Enriched Cubes—500 tonnes p.a. (NA).

Licences Revoked/Surrendered

(Information pertains to particular licences only)

M/s Sarabai Chemicals, P.B. No. 31, Wadi Wadi, Baroda—Mychlor Tablets and Ointments; M/s Bhavnagar Sugar Mills Ltd, Dhola Jn. Gujarat State. —Sugar; M/s Malikeshwari Textiles (P) Ltd, Palace Palayakottai, Coimbatore Distt. (Tamil Nadu)—Cotton Yarn; M/s Jaipur Metals & Electricals Ltd, Kamani Chambers, Nicol Road, Ballard Estate, Bombay—Synthetic Sapphire and other Jewel Bearings for Meters, Instrument & Watches.

RECORDS AND STATISTICS

New Industrial Licensing Policy

THE GOVERNMENT of India on February 18 issued a new industrial licensing policy under which industrial undertakings with investments below Rs 1 crore have been delicensed. Licences for undertakings belonging to larger industrial houses or branches or subsidiaries of foreign companies will however be issued on certain specific considerations. The policy envisages the public sector to enter the field of consumer goods industries. The text of the industrial licensing policy is given below.

In recent months the government has been carefully examining the changes necessary in its policies relating to industrial development, in the light of the recommendations of the Administrative Reforms Commission, the Industrial Licensing Policy Inquiry Committee and of the Planning Commission. It has been decided to make certain changes in (a) Industrial Licensing Policy; (b) the policy in regard to assistance from public financial institutions; and (c) the polices relating to the growth of the public sector.

The government has accepted the recommendation of the Industrial Licensing Policy Inquiry Committee that there should be a list of core industries consisting of basic, critical and strategic industries in the economy. Detailed industry plans will be prepared for these industries and essential inputs made available on a priority basis. Care will be taken to ensure that an adequate proportion of foreign exchange is kept apart for non-core industries also. A list of core industries has been drawn up by the Planning Commission in consultation with the economic ministries in the light of the production gaps that have to be closed in the course of the fourth Pan. The list is attached at Annexure 'I'. Such of the industries in the 'core' list as are included in Schedule A of the Industrial Policy Resolution, 1956 (as amended from time to time) will continue to be reserved for the public sector. In addition to the core sector all new investment propositions of over Rs 5 crores shall be deemed to be in the "heavy investment" sector. Except for industries reserved for the public sector under the Industrial Policy Resolution, 1956, as amended from time to time, undertakings belonging to the larger industrial houses, as defined in the report of the Industrial Licensing Policy Inquiry Committee together with foreign concerns and subsidiaries or branches of foreign companies, would be expected, along with other applicants to participate in and contribute to the establishment of industries in the core and heavy investment sectors leaving the opportunities in the remaining sectors primarily to other classes of entrepreneurs. The joint sector concept, suggested in the ILPIC report has been accepted in principle. It will be government's endeavour to apply the concept in the case of major projects taken up by private enterprise groups in the two sectors referred to above as may be appropriate. In the middle sector, involving investments ranging from Rs 1 crore to Rs 5 crores, licence applications of parties other than undertakings belonging to the larger industrial houses shall be given special consideration and shall be issued liberally, except where foreign exchange implications necessitate careful scrutiny. Licence applications from undertakings belonging to or controlled by larger industrial groups and foreign-branches subsidiaries shall be considered for normal expansion, where such expansion is necessary to develop to a minimum economic level which would ensure greater cost efficiency. The provisions of the Monopolies and Restrictive Trade Practices Act will be taken into account.

Government has accepted the criteria for the classification of firms belonging to larger industrial houses, as evolved by the Industrial Licensing Policy Inquiry Committee and stated in Para 2, 16 of its report. It is, however, recognised that changes are bound to take place from time time, in classifications of this type. For example, when the managing agency system ceases to be in force as from April 3, 1970, the list of companies and concerns owned or controlled by the larger industrial houses may possibly require some modifications. The Department of Company Affairs will be the agency for making such modifications and changes and for keeping the list authoritative and up-to-date. Those individual companies or undertakings who consider that their inclusion in the list of the 20 larger industrial houses is incorrect, may represent to the Department of Company Affairs who will constitute the administrative authority to determine and pronounce on the issue. Similarly, a suitable procedure will be adopted for making additions to the list in the light of the criteria adopted by government.

The existing policy of reservation for the small-scale sector, (involving investments in machinery and equipment up to Rs 7·5 lakhs) will be continued and the area of such reservation will be extended, wherever production in this sector can be expected to grow to adequately meet demand. The first list of industries to which the reservation will be extended has been prepared by the Planning Commission in consultation with the Ministry of Industrial Development. Reservation will be extended to the industries in this list which is in Annexure II.

In respect of agro-industries, particularly undertakings processing sugarcane, jute and other agricultural commodities, preference will be given in licensing to applicants from the cooperative sector.

The exemption limit from licensing provisions including licensing of new undertakings and substantial expansion of existing units will be raised from Rs 25 lakhs to Rs 1 crore (by way of fixed assets in land, buildings and machinery) in the cases of undertakings or categories of undertakings which have existing assets of less than Rs 5 crores and which (i) do not belong to the larger industrial houses, as classified by the Industrial Licensing Policy Inquiry Committee; (ii) do not require more than Rs 10 lakhs or more than 10 per cent by way of foreign exchange for import of machinery and equipment, whichever is less and do not also require foreign exchange, except marginally, for import of raw materials, components and the like, and (iii) are not included in the category of 'dominant undertakings' as defined in the Monopolies Act. There will be no commitment on the part of government to provide foreign exchange for maintenance and raw material imports for units which benefit from the exemption from licensing.

With the exemption limit for licensing being raised to Rs 1 crore, and in view of the other policy objectives sought to be achieved, the existing exemption of a number of industries from licensing requirements will be withdrawn. Applicants who wish to set up industrial units in industries which were delicensed so far, will henceforth have to apply for a licence in accordance with the new policy.

Government has recognised the need for an adequate orientation of licensing policy in order to step up the export effort. Guidelines in this regard will be prepared by the Ministry of Industrial Development in consultation with the Ministry of Foreign Trade and will be announced thereafter.

Necessary instructions and notifications will be issued by the Ministry of Industrial Development to give effect to these decisions. A set of guidelines will be issued to the Licensing Committee to keep in mind these decisions and other related objectives of industrial development, in dealing with new applications for licences.

With the acceptance of the joint-sector concept in principle, it will be ensured in future that there is a greater degree of participation in management, particularly at policy levels, in the case of major projects involving substantial assistance from public financial institutions. Public financial institutions will also, as part of their financial assistance arrangements, exercise option for converting loans given and debentures issued in future, either wholly or partly, into equity within a specified period of time. As for loans and debentures given in the past, the financial institutions concerned would have discretion to negotiate conversion in cases of default. The Department of Banking will be issuing necessary instructions in this regard.

Alongside the measures taken to reduce the concentration of economic power, the scope of the public sector is proposed to be substantially expanded, beyond the fields included in the Industrial Policy Resolution of 1956. Various production ministries will examine the possibility of taking up short gestation projects yielding quick returns so as to cover, to the extent feasible, major production gaps likely to develop in various industrial sectors in the next few years. In order to meet the resources requirements for an expanded public sector programme, it has been decided in principle that the public financial institutions should be authorised to consider applications for financial assistance for projects to be set up in the public sector on the same terms as applications from private parties. The Department of Banking would issue necessary instructions in this regard after detailed examination.

Annexure 'I'

LIST OF 'CORE' INDUSTRIES

1. *Agricultural inputs*:
   - (a) Fertilisers
     - (i) Nitrogenous
     - (ii) Phosphatic
   - (b) Pesticides (basic chemicals only)
   - (c) Tractors and power tillers
   - (d) Rock-Phosphate and pyrites
2. *Iron & Steel*:
   - (a) Iron ore
   - (b) Pig iron and steel
   - (c) Alloy and special steels
3. *Non-ferrous metals*

4. *Petroleum*:

(a) Oil exploration and production
(b) Petroleum refining
(c) Selected petrochemicals

(i) Integrated petrochemicals complexes
(ii) D.M.T.
(iii) Caprolactum
(iv) Acrylonitrile
(v) Synthetic rubber

5. *Coking coal*

6. *Heavy industrial machinery* (to be specified)

7. *Ship-building and dredgers*

8. *Newsprint*

9. *Electronics*. Selected components, testing and control equipment, wireless and micro-wave equipment.

Annexure 'II'

LIST OF INDUSTRIES WHICH ARE PROPOSED TO BE ADDED TO THE LIST OF INDUSTRIES RESERVED EXCLUSIVELY FOR DEVELOPMENT IN THE SMALL SCALE SECTOR.

1. Steel furniture
2. Cycle tyres and tubes
3. Mechanical toys
4. Aluminium utensils
5. Fountain pens and ball-point pens
6. Electric horns
7. Hydraulic jacks below 30 tonnes capacity; and
8. Tooth paste

Two notifications were issued on February 19, by the Ministry of Industrial Development, Internal Trade and Company Affairs, giving effect to decisions taken by government regarding modifications in its industrial licensing policy. The notifications relate to (i) relicensing of industries which had been in the delicensed list earlier and (ii) notifying the terms and conditions under which industrial undertakings would be exempted from licensing up to a limit of Rs.1 (one) crore by way of fixed assets in land, machinery and buildings and also specifying the areas reserved for the small-scale sector The texts of the notifications follow:

DEPARTMENT OF INDUSTRIAL DEVELOPMENT

Notification I

S.O./IDRA/29B/70/2—In exercise of the powers conferred by sub-section (1) and (2) of section 29B of the Industries (Development and Regulation) Act, 1951 (65 of 1951), the central government hereby cancels the Notifications of the Government of India in the late Ministry of Industry No. S.O. 1467/IDRA/29B/66, dated the 13th May, 1966; S.O. 2214/IDRA/29B/66, dated the 20th July, 1966; No. S.O. 3793/IDRA/29B/66 dated the 13th December, 1966; and No. S.O. 623/IDRA/29B/67/2 dated the 17th February, 1967 and the Notification of the Government of India in the late Ministry of Industrial Development and Company Affairs, (Department of Industrial Development) No. S.O. 574/IDRA/29B/68, dated the 7th February, 1968; No. S.O. 2175/IDRA/29B/68, dated the 11th June, 1968 and No. S.O. 3339/IDRA/29B/68, dated the 16th September, 1968 regarding grant of exemption from sections 10, 11, 11A and 13 of the said Act to the Industrial undertakings engaged in the Industries mentioned therein and specifies a period of three months from the date of publication of this notification as the period after the expiry of which no owner of any industrial undertaking engaged in such industries shall carry on the business of the undertaking except under and in accordance with the licence issued in this behalf by the central government, and in the case of a state government, except under and in accordance with the previous permission of the central government.

(No. 13(11)/Lic. Pol./69)

Sd/-
K. VENKATARAMAN
Deputy Secretary to the Government of India

Notification II

S.O. IDRA/29B/70/1 : In exercise of the powers conferred by sub-section (1) of section 29B of the Industries (Development and Regulation) Act, 1951 (65 of 1951) and in supersession of the notification of the Government of India in the late Ministry of Industry, No. S.O. 187/IDRA/29B/2/64 dated the 13th January 1964, the central government hereby exempts from the operation of sections 10, 11, 11-A and 13 of the said Act and the rules made thereunder,

(1) all industrial undertakings which have or propose to have fixed assets in plant and machinery not exceeding Rs 7·5 lacs; provided that no such industrial undertaking shall be eligible for exemption:-

(*i*) if it belongs to or is controlled by any Larger Industrial House as classified by the Industrial Licensing Policy Inquiry Committee in the list at Appendix II-A(I) of its report with such amendments to this list as may be made by government from time to time; or

(*ii*) if it is a foreign company or a branch or subsidiary of a foreign company; or

(*iii*) if it falls under the category of 'dominant undertakings' as defined in section 2(d) of the Monopolies and Restrictive Trade Practices Act, 1969 (54 of 1969); or

(*iv*) if it relates to any of the industries listed in Schedule I annexed hereto;

(2) All industrial undertakings, other than the industrial undertakings referred to in para (1) above, which have or propose to have fixed assets in land, buildings, plant and machinery not exceeding Rs 1 crore, provided that no such industrial undertaking shall be eligible for exemption—

(*i*) if it belongs to or is controlled by any Larger Industrial House as classified by the Industrial Licensing Policy Inquiry Committee in the list at Appendix II-A(I) of its report with such amendments to this list as may be made by government from time to time; or

(*ii*) if it is a foreign company or a branch or subsidiary of a foreign company; or

(*iii*) if it falls under the category of "dominant undertakings" as defined in Section 2(d) of the Monopolies and Restrictive Trade Practices Act, 1969 (54 of 1969); or

(*iv*) if it relates to any of the industries listed in Schedule I annexed hereto; or

(*v*) if it requires more than the equivalent of Rs 10 lakhs or more than 10% of the value of the increase in fixed assets in land, buildings and machinery by way of foreign exchange for import of machinery and equipment, whichever is less or may ordinarily require foreign exchange for import of raw materials, components and the like; or

(*vi*) if it relates to any of the industries listed in Schedule II annexed hereto; or

(*vii*) if it relates to certain basic, strategic and critical industries listed in Schedule III annexed hereto.

(F. No. 13(11) Lic. Pol./69).

Sd/-
K. VENKATARAMAN
Deputy Secretary to the Government of India

Schedule I

(1) Coal falling under '(1) Coal, Lignite, Coke and their derivatives' under the heading "2 Fuels".

(2) Textiles, falling under the heading '23. Textiles (including those dyed, printed or otherwise processed), manufactured, produced or processed on powerlooms;

(3) Roller flour milling falling under '(4) Flour' under the heading '27 Food Processing Industries';

(4) (a) Oil seed crushing, falling under '(1) Vegetable oils, including solvent extracted oils' and (b) Vanaspathi falling under '(2) Vanaspathi" under the heading '28. Vegetable Oils and Vanaspathi"

(5) Leather falling under the heading '31. Leather, Leather Goods and Pickers); and

(6) Matches falling under '(3) Matches' under the heading '36. Timber Products'.

Schedule II

1. Absorbent Cotton.
2. Automobile Radiators (except for expansion on merits).
3. Barbed Wire.
4. Beam Scale.
5. Bichromates (except for exports).
6. Bolts and Nuts (except High Tensile and other special type).
7. Conduit Pipes— Metallic.
8. Domestic Electric Appliances and Accesso-

ries such as electric iron, roasters, heaters, washing machines etc. other than vacuum cleaners, industrial washing and dry-cleaning machines etc.

9. Dyes—(i) Azo Dyes (Directs and Acids); and (ii) Basic Dyes.

10. (a) Electrical Wiring Accessories; (b) Electrical Light fittings (such as chokes, starters, reflectors etc.).

11. Expanded Metal.

12. Fireworks.

13. Formulated Perfumery Compounds.

14. Full P.V.C. Footwear (Chappals, Sandals and Shoes), except for export by predominantly export-oriented units.

15. Glass Holloware by semi-automatic process

16. Gun Metal Bushes.

17. Hand Numbering Machines.

18. Hand Stapling Machines.

19. Hurricane Lanterns

20. Hypodermic Needles.

21. Insecticide Dusters and Sprayers(Manual)

22. Laundry Soap.

23. Leather Footwear (except for expansion of the existing units for exports and new units for exports).

24. Machine Screws (except for Socket Head and Special Types).

25. Machine Shop Vices.

26. Metal Clad Switches up to 30 Amps.

27. Miniature Bulbs : (a) Miniature Vacuum Bulbs; (b) Torch Bulbs; (c) Radio Panel Bulbs; (d) Cycle Dynamo Bulbs; and (e) Decoration Bulbs.

28. Paints and Varnishes -Dry Distempers, Red Lead, Red Oxide, Aluminium Paints, Bitumen Paints, to IS Specification, Wagon Blocks, Graphite Paints, all Paste Paints.

29. Palm Rose Oil.

30. Paper Conversion Products.

(i) Bottle Caps, Buttons, Lamp-shade, etc. produced by the compression moulding technique.

(ii) Plastic articles manufactured from plastic sheets, rods or tubes by the fabrication technique excluding the technique of vacuum forming.

(iii) Polythelene Films (Films with a thickness of less than 0·10 mm) and products from the Film such as Bags etc. (excluding heavy duty Bags and Multi-coloured printed film and Bags).

(iv) Blow-moulded Containers and other similar products manufactured by the blow moulding technique (except for captive use, PVC Containers and change over by existing units manufacturing metal Containers to plastic Containers).

(v) Spectacle frames from sheets by fabrication technique or by injection moulding.

(vi) Manufacture of polyester sheets for buttons and the processing of the sheets so produced to manufacture buttons.

34. Rivets of all types (including bifurcated)

35. Rolling Shutters.

36. Roofing, Flooring and Glazed Tiles (except plastic and ceramic tiles of sizes 4" x 4" and above).

37. Safety Matches.

38. Steel Wool.

39. Student's Microscopes.

40. Surgical Gloves (except plastic).

41. Telescopic aerials (for Radio Receivers).

42. Thermometers (upto 150 C).

43. Water Meters.

44. Welded Wire Mesh (except for expansion of existing units).

45. Wire Brushes and Fibre Brushes.

46. Wire Products—all wire products such as wire nails, hob nails, panel pins, horse shoe nails.

47. Wood Screws.

48. Steel furniture.

49. Cycle tyres and tubes.

50. Mechanical toys.

51. Aluminium utensils.

52. Fountain pens and ball-point pens.

53. Electric horns.

54. Hydraulic jacks below 30 tonnes capacity; and

55. Tooth paste

Railway Budget: 1970-71

PRESENTING THE Railway Budget for 1970-71 to the Lok Sabha today, the Minister of Railways, Mr Gulzari Lal Nanda, proposed rationalisation of the freight and fare structure, with marginal increases in freight rates and passenger fares. Broadly, there will be an increase of two per cent to seven per cent on commodities in the existing 'A' scales (by and large most of the bulky low-value traffic moves on the 'A' scales). To balance the charges with the cost, the increases are somewhat higher for longer distances than for the shorter. For commodities in the existing 'B' scales (high-value traffic moves on 'B' scales), increases proposed for longer distances are significantly less. For shorter distances, the increase in 'B' scales will be relatively higher but limited mostly to 50 paise or less per quintal. Mr Nanda said that these increases would form an insignificant proportion of the total value of the commodities.

About coal, the railway minister said, that it would be an exception as at present and would be charged at a special scale. The existing coal scale covered full cost only up to about a thousand kilometres. There would be an enhancement of rates for longer distances to cover costs more adequately.

Mr Nanda said, that it was proposed to amalgamate the 'A' and 'B' scales in a new scale and to replace also the 'C' scales for 'smalls' traffic. In the result, 61 classes would be reduced to about 30 classes. As in the present freight structure, there would be a base scale and rates for any commodity would be a percentage of this base scale. Thus the rate for a commodity in class 45 would be 45 per cent of the base scale.

Mr Nanda estimated that the proposals for rationalisation of the freight structure would bring in an additional revenue of Rs 25·5 crores in 1970-71.

To maintain relativity between goods and parcel rates and to avoid undue diversion from goods to parcel traffic, Mr Nanda proposed adjustments in parcel rates. He mentioned that the cost of handling parcels traffic had shown an an increase. These adjustments were expected to bring in an extra revenue of two crores of rupees.

Mr Nanda said, that passenger fares had ceased to be on a systematic basis because of several ad hoc changes in recent years. The fares for 3rd class travel within 50 kilometres had been left at a particularly low level despite the fact that the provision of slow passenger services with frequent stops and starts was particularly expensive. Not only did ordinary passenger services take up more line capacity and rolling stock but also the operational costs on fuel and staff were higher. However, the railways could not bring 3rd class fares for distances below 50 kilometres straightaway in line with the pattern of fares for longer distances because it would result in too steep an increase. He was, therefore, proposing to moderate the increase in these fares. The proposed increase in 3rd class fares (ordinary, mail and express) should produce an extra revenue of Rs 8 1·4 crores. This was only 3·7 per cent of the present revenue from 3rd class travel. On the other hand, changes in the fares of upper classes were expected to bring in two crores of rupees or seven per cent of the present revenue. In other words, the rate of increase on upper class fares taken as a whole was nearly double of 3rd class fares. The increase in 3rd class fares for ordinary travel was minimal, being only five paise per ticket up to 20 kilometres and 10 paise from 21 to 50 kilometres.

Mr Nanda said, that most of the overcrowding in passenger trains occurred in the 3rd class non-reserved compartments of mails and expresses. This was caused by short distance passengers and was partly due to the fares for mail and express travel up to 50 kilometres being very low, the minimum fare being as little as 20 paise. In order to alleviate this heavy overcrowding and inconvenience to long-distance passengers, it was proposed to charge a minimum fare of a rupee for travel by mail or express train and also to revise the specially low 3rd class fares by these trains up to 50 kilometres. Mr Nanda expressed the hope that the House would agree that this much-needed relief should be given to long-distance 3rd class passengers.

The Railway Minister said that fares for air-conditioned chair cars were now equal to those of 2nd class. Considering the wide difference in the level of comfort and the high cost of airconditioning, it was proposed to fix the fare at slightly high level but in no case would the increase exceed Rs 6 over the revised 2nd class fares. It was also proposed that no concessions other than the normal children's concession would be available in the air-conditioned chair cars.

Mr Nanda proposed somewhat steeper increases of about nine per cent in the first and air-conditioned classes. These would bring in an additional revenue of Rs 1·70 crores. He also proposed increase in the fares for the Rajdhani Express by Rs 20 for the air-conditioned class and Rs 10 for the air-conditioned chair cars. For the Taj Express between Delhi and Agra, he proposed an additional charge of Rs 5 for the air-conditioned class, Rs 2 for the first class and Re 1 for the 3rd class.

The Railway Minister proposed a modest increase in the monthly season tickets for commuters. Mr Nanda clarified that quarterly season tickets would continue to be available at 2 1/2 times of the monthly rates, and as such by changing over to quarterly season ticket, the suburban traveller would still be paying practically what he was now paying on a monthly basis. For non-suburban areas also, the season ticket fares were being revised slightly. Additional earnings from these changes were expected to amount to Rs 80 lakhs.

Mr Nanda said, that on the basis of these proposals there would be an increase of Rs 11·25 crores from passenger traffic, Rs 2·25 crores from other coaching earnings which included the consequential increase of 5 paise on platform tickets. With an increase of Rs 25·50 crores from goods traffic, the total would add up to Rs 39 crores. The net railway revenue would go up correspondingly. After meeting the dividend of Rs 167·09 crores, there would be a net surplus of Rs 22·38 crores. This would be utilized largely for financing developmental works and partly to refund a portion of the loan taken from general revenues.

Revised Estimates for 1969-70

Mr Nanda said, that the railway administration had anticipated an increase of nine million tonnes of revenue earning goods traffic in 1969-70. In spite of serious breaches due to cyclones in Andhra Pradesh, floods on the western railway and on the North-east Frontier Railway, the disruption of movement due to the Telengana agitation and several Bundhs and civil disturbances in the country, the railways had by August 1969, moved about 4 ½ million tonnes more than in the previous year. But traffic slowed down from September and at

the end of the calendar year, the increase in originating tonnage was only about 5·27 millions. In January 1970, loadings were actually less than in January of last year and on present indications it seemed unlikely that the railways would lift more than 5½ million tonnes over the traffic of last year as against the anticipated 9 million tonnes. The shortfall was mainly on traffic to and from the steel plants and on general goods traffic. The estimates of goods earnings had consequently been scaled down by Rs 10 crores from the Budget figure of Rs 600 crores. Mr Nanda mentioned that in judging the total rail transport effort, it had to be taken into account that railways had moved nearly a million tonnes more than last year of loco coal and other railway material.

Mr Nanda said, that under passenger earnings, the picture was somewhat brighter. As a result of an amendment of the Railways Act in June 1969, increasing the penalty for ticketless travel, there had been a substantial increase in passenger earnings. It was now expected that the Budget estimates of Rs 273 crores would be exceeded by Rs 9½ crores. Other coaching earnings and sundry earnings had also bettered anticipations by about Rs 1½ crores and Rs 2 crores, respectively. Earnings awaiting realization were now expected to be a crore less than the budget of Rs 4·2 crores. In the result, Mr Nanda said our present estimate of gross traffic receipts in the current year was Rs 955 crores, an improvement of Rs 3·75 crores over the budgeted figure. The marginal increase in receipts did not, however, give a true picture of the financial position for the current year for there had been an increase of Rs 17·7 crores over the amount budgeted for ordinary working expenses largely on account of repairs of damage caused by cyclones and floods, renewal of train lighting equipment, repairs to rolling stock, increase in coal prices from October 1969, mere payment of compensation for goods lost or damaged and increase in the coast of stores and electricity tariff. In the result, the net railway revenue, it was estimated, would be about Rs 15 crores less than forecast in the budget. Taking into account the small reduction of Rs 58 lakhs in the dividend payable to the general revenues, the net difference on the revenue estimates was Rs 14·46 crores. This wiped out the nominal budgeted surplus of Rs 1·91 crores and resulted in a revenue shortfall of Rs 12·55 crores. To enable the railways to pay the dividend of Rs 158·43 crores to the general revenues, there was thus need to find this amount of Rs 12·55 crores. The amount available to the revenue reserve fund for this purpose being only Rs 2·84 crores, the railways had to take a loan of Rs 9·85 crores from the general revenues to meet the dividend liability. Thus for the fourth year in succession net railway revenues had failed to produce the full amount as dividend to the general revenues.

Fourth Plan Outlay

The Railway Minister said, that during the fourth Plan it was planned to provide for rolling stock consisting of 430 broad gauge and 218 metre gauge main line diesel locomotives, 100 diesel shunters, 340 broad gauge electric locomotives, about 100,000 wagons, 6,400 standard coaches, 768 electrical multiple coaches and 50 rail cars. The aim was that the operation of high density traffic routes should entirely be by electric or diesel traction. The foreign exchange component of the railways' fourth Plan had been assessed at Rs 180 crores. This was Rs 60 crores less than the foreign exchange expenditure at pre-devaluation rates during the third Plan. The fourth Plan for the railways had been approved on the understanding that out of the total expenditure of Rs 1,525 crores, Rs 940 crores would be found by the railways themselves — Rs 525 crores from the railways' contribution towards the depreciation reserve fund, Rs 265 crores from anticipated revenue surpluses at the existing freight rates and fares, interest on balances etc. and Rs 150 crores to be raised by increase in freight and fare rates during the Plan period. It was only the balance of Rs 585 crores that would be made available from general resources.

Mr Nanda said, that the latest forecast for the five-year period up to 1973-74 indicated that apart from contributions to the depreciation fund, the railway contributions to Plan resources would, at the present passenger fare and freight rates, come up only to Rs 86 crores against Rs 265 crores envisaged in the Plan. The gap amounted to Rs 179 crores to which would have to be added the amount of Rs 150 crores which was to be found by increases in fares and freight rates. The railways had therefore a task of raising Rs 329 crores for implementing the Plan and herein lay the problem facing the railways.

Estimates for 1970-71

Outlining the prospects for 1970-71, Mr Nanda said, that allowing for a normal increase of three per cent in passenger and two per cent in other coaching traffic and an increase of the order of 7·6 million tonnes in originating goods traffic, the gross traffic receipts without the proposed rationalisation of the freight and fare structure should total up to Rs 983 crores -- an increase of about Rs 32½ crores over the current year. As against this, ordinary working expenses would go up by Rs 17·94 crores, appropriation to depreciation reserve fund and pension fund would each go up by five crores of rupees and the dividend would go up by Rs 8·66 crores. Taking into account the changes under certain minor heads, the outgo increased by Rs 76·52 crores against an increase of only Rs 32·45 crores in gross earnings so that the net revenue would be Rs 16·62 crores short on the dividend of Rs 167·09 crores due to the general revenues. As against this, the fourth Railway Plan had been framed on the assumption that in the coming year, Indian Railways would produce a revenue surplus of Rs 19½ crores to be used for developmental works. The gap between the Plan estimate and actual availability was as much as Rs 36·12 crores.

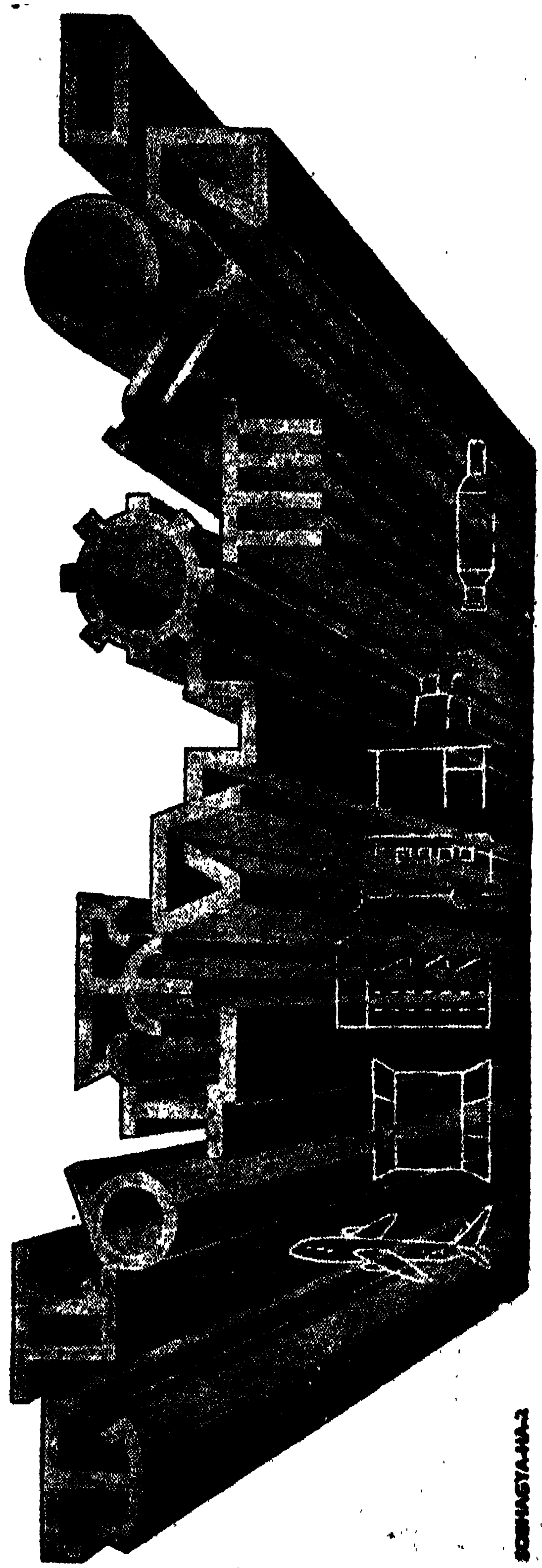
Mr Nanda said, that the increase in ordinary working expenses was mainly on account of the provision of Rs 5·33 crores for annual increments to the staff and of Rs 4·81 crores for additions to staff to handle the increase in traffic and to maintain the growing assets, particularly rolling stock, an increase of Rs 4·29 crores under repairs to rolling stock, an increase of Rs 80 lakhs due to enhancement of steel prices from January this year, offset by reductions of Rs 70 lakhs on other counts.

In this situation, the Railway Minister said, the choices before him were indeed hard and difficult. It was easy for him to leave freight rates and passenger charges untouched and win instant approbation. But that course would upset our plans and result in the stagnation and decline of Indian Railways, which were our premier public undertaking, an enterprise of which we were all legitimately proud. He was sure everyone in the House and the country would wish to see that our railway system got more modernised from year to year and grew continuously in efficiency. This required the raising of resources. But to enhance the freight charges and fares suddenly and with no reference to the repercussions on the economy would be a suicidal course to follow. He was therefore proposing a course of rationalisation of the freight rates and passenger fares in such a manner as would produce financial results but would not affect adversely the common man and the trader in any significant manner. It was pertinent to bring to the notice of the House and the country, he said, that over a period of 20 years from 1950, the average per capita emoluments of a railway employee had increased by 132 per cent, the price of coal by 145 per cent and the price of iron and steel by 167 per cent. As against this, over the same period, the average rate charged per passenger kilometre had risen only by 68 percent and the average rate charged per tonne kilometre for goods had risen only be 61 per cent. This restraint on the escalation of the price of railway services had been deliberately exercised and would continue to be exercised in the interest of our people whose property the railways were. Roughly, 58 per cent of the railway expenditure was on staff and 21 per cent on fuel. The House would, no doubt, appreciate that the railways were not in a position to control either the increase in staff emoluments which rose with the cost of living index or the prices of fuel, steel and other material which the railway had to buy. Steady pressure was being exerted on railway administrations to effect all possible economy in the usage of fuel and other stores. Account should also be taken in this context of the heavy expenditure the railways had to incur on the replacement of railway equipment that was stolen or was wantonly destroyed in demonstrations, many

RAILWAY BUDGET AT A GLANCE

(Rupees in crores)

	Actuals 1968-69	Budget Estimate 1969-70	Revised Estimate 1969-70	Budget Estimate 1970-71	
Gross traffic receipts	898·84	946·80	950·55	983·00 +39·00	(Effect of budget proposals)
Ordinary revenue working expenses (Net) i.e., after taking credit for recoveries	636·78	665·35	683·05	700·99	
Appropriation to depreciation reserve fund from revenue	95·00	95·00	95·00	100·00	
Appropriation to pension fund ..	10·00	10·00	10·00	15·00	
Net miscellaneous expenditure (including cost of works charged to revenue) ..	14·25	15·53	16·62	16·54	
Total	756·03	785·88	804·67	832·53	
Net railway revenue	142·81	160·92	145·88	189·47	
Dividend to general revenues ..	150·67	159·01	158·43	167·09	
Net surplus (+)/shortfall (—)	(—)7·86	(+)1·91	(—)12·55	(+)22·38	
Operating ratio	82·5%	81·4%	82·9%	79·8%	



of which were not against the shortcomings and failures on the part of the railways.

Mr Nanda said, that the steady increase in the number of staff from year to year had been reduced and controlled with difficulty in the last few years and efforts would continue to keep the number to what was absolutely necessary. Mr Nanda pointed out, that the cost of officer cadre on railways (excluding the medical staff who were employed mainly as a welfare measure) was only 0·88 per cent of the railway earnings in 1968-69 against 1·13 per cent in 1950-51, and had shrunk to 2·1 per cent of the total staff cost in 1968-69 against 2·7 per cent in 1950-51.

The Railway Minister said, that the railways were incurring a loss of Rs 45 crores every year on passenger and other coaching traffic which was being met out of profits on goods traffic. This loss would increase with the further growth of passenger train services especially suburban services around the metropolitan cities of Bombay, Calcutta and Madras and the rising cost of handling the parcels traffic.

Mr Nanda said, that there had been a substantial change in the mix of freight traffic. The proportion of bulky low value commodities such as coal, stone, etc. which were charged at relatively lower rates had been increasing and would continue to increase, while the proportion of high value commodities charged at relatively higher rates was decreasing fast with the rapid development of roads and growth of road transport. The low rates for bulky commodities could be sustained in the past only because of profits on the higher-rated commodities. With road competition erroding the traffic in high rated commodities, the railways could not afford to increase significantly the freight on items which were vuluneravle to road competition. The situation could be met only by an increase in the freight on low-rated traffic and a lower rate of increase on high-rated traffic. It had also to be borne in mind that steep increases in freight had an inflationary effect on the economy while increases in passenger fares had by and large no such effects. The situation, therefore, called for a reduction of the subsidization of passenger and other coaching traffic by goods traffic. In the goods freight structure itself, a reduction in the difference between the higher rates and the lower rates was desirable so as not to effect their competitiveness. This broadly was what had been attempted in his proposals.

Works Programme

The budget for works expenditure for 1970-71 was Rs 280 crores, Rs 37 crores more than the revised estimates for this year. There was a provision of about Rs 124 crores for rolling stock and fresh orders were proposed to be placed for over 15,000 wagons against the 1970-71 programme.

Among the important new projects to be taken up in 1970-71, Mr Nanda announced the construction of a new broad gauge line from Tornagallu to Madukulapenta in Mysore and electrification of Waltair-Kirandul section, both of which will add to the railways' capacity for moving iron ore for export.

MEMORANDUM ON PROPOSALS

The memorandum explaining the proposals rationalisation of fares and freight rates follows:

Passenger Traffic

Passenger fares have been adjusted *ad hoc* from time to time with the result that they are not on any systematic basis. It is proposed to rationalise them now for all classes, except fares for Third Class Ordinary travel up to 50 kms which will continue to be *ad hoc* for the time being in order to avoid too heavy an increase over the present low fares.

The bases proposed are given in Table I.

The experiment of charging block rates, introduced in the Bombay suburban area to reduce queues at the booking windows, will continue with a corresponding increase in the block rates.

The fares for air-conditioned chair cars, which are now equal to the second class mail fares are proposed to be fixed at a slightly higher level, but the maximum increase over the proposed second class fares is only Rs 6/-.

Mainly in order to relieve over-crowding on long-distance trains due to their being used by short-distance passengers, it is proposed to abolish the lower basis of third class mail fares for distances up to 50 kms. and to fix a minimum fare of Re 1 for third class travel on Mails and Expresses.

Monthly Season Tickets

2. Cost studies have revealed that the heavy suburban services around Bombay, Calcutta and Madras are being run at a heavy loss which is of the order of 8 crores against the earnings of about Rs 26 crores a year from this traffic. During the fourth Plan very substantial sums are programmed to be spent on the improvement of these suburban services. To mention a few of the important items, it is proposed to provide nearly 600 new electric multiple unit coaches at a cost of R 27·4 crores for the suburban services at Calcutta and Bombay. The quadrupling of the tracks from Grant Road to Churchgate in Bombay is expected to be completed at a cost of Rs 4 crores, the strengthening of the overhead equipment and the provision of more sub-statoins on the suburban sections are expected to cost Rs 1·5 crores. The servicing facilities for these coaches in Bombay and Calcutta will cost about 4·2 crores. This heavy expenditure of nearly 40 crores will, apart from the cost of operation of the additional services, increase the loss on suburban services substantially, unless the earnings from these services are improved. It is a feature of suburban traffic that about 70 per cent of suburban passenger travel on monthly or quarterly suburban season tickets and only the remaining 30 per cent on ordinary tickets. The earnings from season tickets, however, come to only 41 per cent of total suburban earnings because the price of the monthly season ticket at present is equal only to 12 to 16 single journey fares, though in most cases these tickets are utilised for at least 50 single journeys in a month. Again, the price of quarterly season tickets available for three months is only two-and-a-half times the price of monthly season tickets, with the result that those who buy these quarterly season tickets pay only for about 10 single journey fares against about 50 single journeys they perform in a month. The proposals now made involve a very modest increase in monthly season tickets also, so that suburban monthly season ticket holders pay at least for 14 single journeys on distances up to 40 kms. For the distance beyond 40 kms. the season ticket fare will still be equal to 13 single journey fares or less. The issue of quarterly season tickets at two-and-a-half-times the monthly season ticket fare will continue, so that the suburban passengers who now buy monthly season ti-

Table I

BASES FOR RATIONALISATION

Class	Basis for charge, in paise: 1 to 100 Kms.	Plus 101 to 600 kms.	Plus 601 to 1600 Kms.	Plus 1601 Kms & Over	Minimum Rs.	Rounding off rule.
Unit	per Km	per 5 Km	per 5 Km	per 10 Km		
A/C	24	100	82	150	15·00	Next higher rupee.
First ..	12	48	38	60	*Mail* 6·00 *Ordy* 2·00	Next higher multiple of 50 paise.
Chair Car (AC) ..	9	32	22	36	5·00	Do.
Second Mail or Express	7	28	22	36	3·50	Do.
Second Ordy. ..	6	24	18	32	1·50	Do.
Third Mail or Express	4	16	12	17	1·00	Next higher multiple of 10 paise.
Third Ordy (above 50 Kms)	3	12	10	16	0·25	Do.
Third Ordy (up to 50 Kms)	The existing fares increased by 5 paise up to 20 Kms and by 10 paise from 21 Kms to 50 Kms.					

Table II

SEASON TICKETS

Distance	Third class Monthly Season Ticket at Bombay (old)	Third class Monthly Season Ticket (Proposed)	Three times col. 2	Quarterly Season Tickets at 2½ times column 3
1	2	3	4	5
Kms.	Rs	Rs	Rs	Rs
1	2·45	3·50	7·35	8·75
5	2·90	4·00	9·70	10·00
7	3·70	4·50	11·10	11·25
10	5·05	6·00	15·15	15·00
15	6·75	8·00	20·25	20·00
20	7·90	9·00	23·70	22·50
25	8·70	11·00	26·10	27·50
30	9·75	12·00	29·25	30·00
35	10·60	13·00	31·80	32·50
40	11·40	14·00	34·20	35·00
45	12·15	14·50	36·45	36·25

ckets can, by changing over to quarterly season tickets, still continue to pay practically the same as what they used to pay for three monthly tickets on the old basis *vide* columns 4 and 5 of Table II (Page 331).

The Monthly Season Ticket fares will be revised as follows.

(i) First Class

Though First Class season ticket fares were enhanced with effect from October 1, 1969, a further enhancement will be made in consonance with the enhancement proposed in respect of Third class season ticket fares. The revised bases are as given in Table III:—

Table III

Suburban (Bombay, Calcutta and Madras).

Range Kms.	Per Km Rs.	Rounding off rule.
1—10	1·60	*Below Rs* 10.
plus 11—20	0·90	To the next higher multiple of 50 paise.
plus 21—50	0·70	
plus over 50	0·55	*Above* Rs. 10,
Minimum	9·00	Next higher rupee.

Non-suburban:

1—10	1·60	As in suburban
plus 11—20	1·10	
plus 21—50	0·80	
plus over 50	0·75	
Minimum	9·00	

(ii) **Second Class**

This pertains to only non-suburban areas, there being no Second class in the suburban trains.

The fares will be fixed on the following basis·

Distance Kms.	Per Km. Rs	Rounding off rule.
1—10	1·00	Next higher multiple of 50 paise.
plus 11—20	0·60	
plus 21—50		
plus 51 Kms and over		
Minimum	6·00	

The traffic moving on Second class monthly season tickets is very small.

(iii) **Third Class**

Suburban

The season ticket fares will be revised on the following basis :—

1 to 25 Kms	*Ad hoc* fares.
26 to 50 Kms	Rs 11·00 plus 16 paise per Km for distances over 25 Kms.
51 Kms. and over	Rs. 15·00 plus 15 paise per Km fordistances over 50 Kms.

Fares over 25 Kms to be rounded off to the next higher multiple of 50 paise.

Non-suburban

The fares will be revised on the following basis:—

1 to 10 Kms.	Fares equal to suburban fares.
11 to 20 Kms	50 paise more than suburban fares.
21 Kms andover	Rs 9·50 plus Re 0·30 per Km for distance over 20 Kms., fares being rounded off to next higher multiple of 50 paise.

3. The following changes in certain concessions and special charges will be made :—

(i) Concessional travel by chair car, A/C

No concessions—other than the normal children's concessions— will be available by A/C Chair Car.

(ii) Concessional Season Tickets

At present Season Tickets are issued to students etc. at further concessional rates, without any minima. Thus a child student can get a monthly ticket at ¼ the rate *i.e.*, about 3 single journey fares for a whole month's travel. As the season tickets are already on a very low basis, it is proposed that such concessional monthly season tickets should be subject to following minima:—

	Monthly Rs.	Quarterly Rs.
First class	4·00	10·00
Second class	3·00	7·50
Third class	2·00	5·00

(iii) Rajdhani Express

The fares will be increased as follows :—

	Existing Rs.	Proposed Rs.
A/C	280·00	300·00
A/C Chair Car	90·00	100·00

(iv) Taj Express

The following additional charges will be levied for travel by Taj Express running between Delhi and Agra :—

	Additional charges Rs.
A/C..	5
First Class	2
Third Class	1

(v) Reservation charges for full compartments

These will be enhanced as follows :—

	Existing Rs.	Proposed Rs.
2 berths (coupe)	10	15
4 berths	16	24
5 or 6 berths	24	36

(vi) Third class sleeper charges

The charges will be revised as follows :—

Existing	Three-tiers Rs.	Two-tiers Rs
First night	4	4
For every subsequent night	1	4 Per night
Proposed—		
One night	5	5 First night
More than one night	8	4 For every subsequent night

4. *Platform tickets*

The charge for a Platform ticket will be fixed at 25 paise, in order to make it equal to the minimum fare for a Third class Ordinary journey.

5. Charges for miscellaneous traffic, such as special trains, will also be revised in consonance with the revision in the general basis. Until so revised such traffic will continue to be charged as at present.

Coaching (Parcels) Traffic

It is appropriate that rates for Parcel traffic are also rationalized, in line with the proposed goods rates structure.

2. Parcels rates comprise the following different varieties :—

(i) The full parcel rates.
(ii) The half parcel rates.
(iii) The quarter parcels rates
(iv) The rates for passenger's luggage.
(v) The special scale of rates for betel or pan leaves, butter cream and khoa (dried milk).
(vi) The special scale of rates for newspaper.
(vii) The rates for books, khaddar (khadi) and milk.
(viii) The rates for small parcels not exceeding 25 cubic decimetres by measurements or 2 Kgs in weight.
(ix) Rates for livestock, motor cars, bicycles, etc.

"Half Parcel rates" and "Quarter Parcel rates" are not in fact half and quarter of full parcel rates. These names are legacies of the past and merely represent different scales.

3. The rates for different varieties of parcels traffic will be revised on the basis shown below. It is proposed to rename the scales as scale 1, etc., as shown in Table IV.

Table IV

Item No.	Particulars of Traffic	Proposed revised rates equal to goods rates of class	Proposed name of the scale
1.	Full Parcel rates	300	scale 1
2.	Rates for betel or pan leaves, butter cream and khoa (dried milk)	240	Scale 2
3.	Expensive fruits as under :— Apples, anar, cherries and grapes	160	Scale 3
4.	Half Parcel rates	140	Scale 4
5.	Vegetables, books and khaddar	120	Scale 5
6.	Milk	100	Scale 6
7.	News papers	80	Scale 7
8.	Quarter Parcel rates	70	Scale 8
9.	Luggage	320	Scale A

4. The rates for small parcels will be revised merging the 20 per cent supplementary charge that is leviable.

5. Market Vendor's Tickets are being issued at Bombay, Madras, etc. and are charged at 25 per cent over the adult monthly season ticket fare, with a free allowance of 60 Kgs. in one direction and normal free allowance in the return direction. This makes the rate for the produce part only about 12 per cent of the normal rates. It is proposed to charge Market Vendor's Tickets at 80 per cent over the Monthly Season Ticket fare instead of at 25 per cent over, as at present, which will make the rate for the produce part about 40 per cent of the normal rates.

6. Fresh fruit and vegetables traffic in wagon loads between points where there is relatively heavy traffic, moves at special rates quoted on a very low basis. No substantial change was made in these rates when the basis for charge for fresh fruit generally was revised from quarter parcel rates to half parcel rates. The high cost of special arrangements which have to be made for the expeditious movement of this traffic makes the special rates totally unremunerative. The existing rates will be replaced by lumpsum rates at 45 per cent less than the tariff rates, on full loadability. This will enhance the rates by about 30 per cent This should not, however, result in any significant increase in prices. Even when the lead is long as from Nagpur or Bhusaval to Delhi the extra freight would amount only to about three paise per dozen oranges or bananas. The

increase is, in any case, unavoidable from the point of view of costs of movement.

7. The rates for livestock etc. and also various miscellaneous charges will continue as at present, until their examination with a view to rationalisation is completed.

Goods Traffic

The present goods freight structure, originally introduced in 1958, is based on the recommendations of the Railway Freight Structure Enquiry Committee, appointed in 1955— under the Chairmanship of Dr A. Ramaswamy Mudaliar. There have been several *ad hoc* changes since then, including the imposition of supplementary charges from time to time.

2. During the last decade the pattern of traffic has changed significantly. There has been a steady fall in the proportion of traffic charged at higher rates like oilseeds and cotton raw etc. and a corresponding increase in the proportion of low-rated traffic in commodities like coal, iron ore, limestone and other products of mines, etc. This shift in the pattern of traffic is a permanent shift. The old freight structure, with a wide difference in the charges for low-rated and high-rated commodities was able, on the old pattern of traffic, to produce sufficient revenue to cover expenditure and leave a reasonable surplus after paying dividend, because the low margin over costs in the case of low rated commodities was compensated by the larger margin in the case of high rated commodities. A significant factor underlying the change in the pattern of traffic is the intensive competition from road transport for the high-rated non-bulky traffic. Road traffic not only has inherent advantages like being able to offer a door to door service but is also not subject to certain restrictive statutory obligations to which Railways are subject, such as the obligations of a common carrier, prohibition against undue preference and prejudice etc. Road competition limits the possibilities of increases in freight for vulnerable traffic. The imbalance due to the change in the proportion of high-rated and low-rated traffic can, therefore, be restored only by enhancing the rates for low rated traffic relatively more than for higher rated traffic.

3. The proposals to rationalise the structure are made against this background and include:-

(*i*) Abolition of the existing supplementary charges,

(*ii*) Bringing the rates more in line with costs,

(*iii*) Adjusting the "taper" on telescopic rates to take account of the development of road competition and the changing trends of Railway traffic.

(*iv*) Bringing the different varieties of classification now in force into a unified system.

4. While rationalizing the structute as above, requirements of additional revenue, to cover increasing costs, have to be taken account of.

5. A revised rationalized structure has been evolved, keeping the above factors in view. In this revised structure, there will be 30 classes designated as follows :—

No. of class	No. of class	No. of class
25	52·5	85
27·5	55	87·5
30	57·5	95
32·5	60	100
35	62·5	105
37·5	65	110
40	67·5	115
42·5	70	120
45	75	130
50	80	150

These will replace not only the existing "A", "B", "A-Spl.", "B-Spl." and "R" classes applicable to wagon loads, but also the "C" classes applicable to "smalls" traffic — a total of 61 classes.

6. The actual levels of rates of these various numbered classes are derived as follows.

There is a Base Scale, calculated on the following basis :—

Distance (Kms.)	Paise per kilometre per quintal
1—40	3·10
plus 41—100	1·73
plus 101—250	1·25
plus 251—500	1·05
plus 501—800	0·98
plus 801—1200	0·98
plus1201—1800	0·80
plus 1801—2400	0·60
plus 2401—3000	0·40
plus 3001 and over	0·25

7. The rates are calculated for the following blocks of distances :—

1—40 Kms	One block
41—250 Kms	5 Kms blocks
251—800 Kms	10 Kms blocks
801—2400 Kms	25 Kms. ,,
Beyond 2400 Kms	50 Kms. ,,

The rates for various classes are derived from the above base scale by taking the class No. as a percentage of the base rate for each distance and then adding 20 paise per quintal.

8. The existing wagon-load classes (with a few exceptions which are mentioned later), will be generally replaced as shown in Table V.

For the "A" class commodities the increases are generally within the range of 2 to 7 per cent but for the longer distances, the increases a

Table V

EXISTING AND PROPOSED CLASSIFICATIONS

Existing classification	Proposed scale	Existing classification	Proposed scale	Existing classification	Proposed scale
22·5A	25	45-R	45	80B	80
25A	25	55A	57·5	80B Spl.	95
27·5A	27·5	52·5B	52·5	82·5B	85
30A	30	55B	55	85B	85
30A Spl.	30	55B Spl.	60	92·5B	95
32·5R	32·5	57·5 B	57·5	97·5B	100
35A	35	60B	60	100B	100
35R	35	62·5B	62·5	100B Spl.	105
37·5A	37·4	65B	65	105B	105
37·5R	37·5	67·5B	67·5	110B	110
40A	40	70B	70	115B	115
40R	40	72·5B	70	120B	120
42·5A	42·5	75B	75	125B	120
45A	45	75B Spl.	87·5	130B	130
		77·5 B	80	155B	150

Table VI

IMPORTANT COMMODITIES IN DIFFERENT CLASSES

Class		Commodity	
Present	Proposed		
25A	25	Oilcake	The prices range from Rs. 300 to Rs. 1000 per tonne, while the enhancement even at 1000 Kms is only Rs. 2·00 per tonne.
30A Spl'	30	Wheat, Rice, jowar and Bajra	The increases in rates per tonne are Rs. 2·30 at 1000 Kms and Rs' 5·80 at 2000 Kms, while the prices are between 700 and 1000 per tonne.
35A	35	Iron ore	The increases are nominal upto 500 Kms. Even at 1000 Kms the increase is only Rs' 2·50 per tonne.
35R	35	Programmed Salt	There are increases mostly beyond 1200 Kms.
40A	40	Cement	At 530 Kms the increase is only Rs. 1·80 per tonne. The price of cement is about Rs. 200 per tonne.
55B Spl.	60	Sugar	The increase even at 1000 Km. is only Rs. 4·20 per tonne while at long distances like 1500 Kms, there will be an actual decrease in the rate which will be helpful in exports.
57·5B	57·5	Kerosene oil	The crease at 500 Kms will be only 50 paise per tonne.
67·5B	67·5	Iron & Steel Div. B	The increase will be Rs. 1·70 per tonne at 500 Kms.
75-B Spl.	87·5	Piecegoods, Cotton fullpressed and Hydrogenated oil.	The increase at 500 Kms is Rs. 10·20 per tonne while at longer distance the increase will be lowpr. This forms a very insignificant percentage of price of piecegoods.
120B	120	Motor Vehicles	The increase at 1500 Kms is only Rs. 1·70 per tonne.

somewhat higher as they are necessary to balance the charges with the costs.

"B" Class commodities move mostly to long distances, and for these distances the increases are very moderate. Although the percentage increases for short distances—upto about 200 Kms—are relatively high, the absolute increases are mostly under 50 paise per quintal. These increases are unavoidable to cover costs at shorter distances, and are also in consonance with the requirements of rail-road co-ordination. Since "B" class commodities are usually costly, an increase of about 50 paise per quintal in the frieght for shorter distances would in any case be an insignificant proportion of their value.

10. Some of the important commodities in the different classes are given in Table VI. (p333).

11. *Coal.*—Coal traffic forms about 30 per cent of the total originating tonnage and accounts for 18 per cent of the goods earning. It is, therefore, necessary that the rates for this traffic should cover costs adequately. The rates have in the past been increased gradually towards this end. It is necessary now to enhance the rates at longer distances to cover costs more adequately. The new rates will be fixed on the following basis :—

Distance		Rate per tonne
Kms.		Rs.
1— 40	..	6·80
41— 240 ..	..	0·16 for every 5 Kms.
241 – 800 ..	..	0·30 for every 10 Kms.
801—1200 ..	..	0·56for every 25 Kms.
1201—1800 ..	..	0 54 for every 25 Kms.
1801—2400 ..	..	0·48 for every 25 Kms.
2401 –3000 ..	..	0·60 for every 50 Kms.
3001 and over	..	0·30 for every 50 Kms.

The rates will be rounded off to the next higher multiple of 10 paise beyond 800 Kms. There is no change in the rates upto 800 Kms.

12. **Hard Coke**

The rates for Hard Coke will be enhanced to remain 10 per cent higher than the rates for coal, as at present. Rates beyond 800 Kms will be rounded off to nearest multiple of 10 paise.

13. **Commodities with a low minimum weight for charge, per wagon**

In the case of the following commodities, which have very low minimum weights for charge, the existing classes will be replaced by one or two classes higher than the corresponding class, as shown below :—

Commodity	Existing weight condition (B.G.)	Existing class for wagon loads	Proposed class
Cotton linterns ..	W/45	57 5B	62·5
Dhona ..	,,	57·5B	62·5
Tea chests, made up	,,	57·5B	62·5
Empties ..	,,	65B	70
Leaves N.O.C.	,,	70B	75
Rice parched ..	,,	80B	85
Grass dry ..	W/60	35A	45
Coir ..	,,	55B	60
Glass-ware Div. C	,,	65B	70
Glass carboys ..	,,	65B	70
Coconut shells ..	W/75	52 5B	57·5
Coconut husks ..	,,	52 5B	57·5

14. **Charcoal and Firewood**

These are at present classified at class 30A, corresponding to class 30. Taking into account the increase in prices, and their comparatively low loadability, the classification for these commodities will be fixed at class 32·5 (O.R.).

15. **Timber, N.O.C.**

Timber N.O.C. is charged at class 42·5A, corresponding to class 42·5, when in wagon loads. It is proposed to classify Timber N.O.C. in wagon loads at class 45.

16. **Biddies**

These are classified at 80B Spl, corresponding to class 95. Taking into account the low loadability, Biddies will be classified at class 100.

17. **Biddy Leaves**

These are classified at class 105B, corresponding to class 105. Taking into account the low loadability, Biddy Leaves will be classified at class 110.

18. **Fish Manure and Guano**

These commodities are quite expensive, prices being of the order of Rs 800 per tonne. They are actually used as fish meal, which is classified at class 22·5A, corresponding to class 25. Fish Manure, Guano as well as Fish Meals will all be classified at the same class namely, class 55.

19. **Chemical Manures Div. A** (40A—corresponding class 40)

Chemical Manures Div. B (35A, corresponding class 35)

These commodities will be classified as under :—

Chemical Manures Div. A	class 45
Chemical Manures Div. B	class 37·5

20. The comparative rates for the above commodities are not being equated to the general corresponding classes.

21. **Sugar-Cane**

Sugar Cane is classified at class 35A. Actually, however, sugar cane is almost entirely carried at very low special rates, quoted on the basis of old IInd class rate, reduced by 40 per cent. Studies show that these rates do not even cover costs. It is proposed to reduce the classification for sugar cane to class 32·5 and charge it at this classified rate, abolishing all reduced special rates.

22. **Non-programmed Salt**

This is now classified at 37·5R. It is proposed to reduce the rates down to equal the proposed rates for Programmed salt *i.e.*, classify both at class 35.

23. **Smalls**

The proposals, so far, have been in respect of wagon load traffic. Goods traffic also moves as "smalls", though the volume is quite small, approximately 3 per cent by weight and 8 per cent by earnings. Cost studies show that the "cost" of handling smalls is very much higher than the cost of handling wagon-loads. It is proposed to replace the existing "C" classifications applicable to smalls by the new classifications as follows :—

New wagon-load classification		Corresponding "Smalls" classification	New wagon load classification	Corresponding "Smalls" classification
25	..	40	67·5	85
27·5	..	45	70	85
30	..	50	75	95
32·5	..	52·5	80	95
35	..	55	87·5	105
37·5	..	60	85	105
40	..	60	95	115
42·5	..	62·5	100	120
45	..	65	105	130
52·5	..	75	110	130
55	..	75	115	130
57·5	..	75	130	150
60	..	75		
62·5	..	75		
62·5		80		
65	..	80		

24. The rates for some distances at the existing smalls classification and proposed classification.

25. Under the existing rules, an additional surcharge of 20 per cent is levied on very small consignments. This will be continued.

26. **Transhipment charges** (See Table VII below)

27. **Miscellaneous charges**

There are some miscellaneous charges levied such as charges on over-dimensional consignments etc., on which the supplementary charge of 9 per cent is leviable. There is also traffic in livestock etc., which is charged at special scales of rates. All these will, for the present, continue as at present, pending their rationalization.

TABLE VII

TRANSHIPMENT CHARGES

(1) On traffic chargeable at carrying capacity of wagons—	
(*a*) Dangerous goods	10 paise per quintal
(*b*) Non-dangerous goods	8 Do.
(2) On all other traffic, *i.e.*, wagon-load traffic chargeable at any minimum weight other than carrying capacity, as well as smalls	
(*a*) Dangerous goods	15 paise per quintal
(*b*) Non-dangerous goods	10 Do.
(3) 50 paise per tonne per transhipment will be levied on coal, coal shale, soft coke, lignite and patent fuel and hard coke.	
(4) Special charge on liquids in bulk involving transhipment ..	10 paise per quintal
As the charges do not cover costs, it is proposed to enhance the rates as under :—	
(1) On Traffic chargeable at carrying capacity of wagons—	
(*a*) Dangerous goods	12 paise per quintal
(*b*) Non-dangerous goods	10 Do.
(2) On all other traffic, *i.e.*, wagon-load traffic chargeable at any minimum weight other than carrying capacity, as well as smalls—	
(*a*) Dangerous goods	20 paise pr quintal
(*b*) Non-dangerous goods	12 Do.
(3) Coal	60 paise per tonne
(4) Special charge on liquids in bulk involving transhipment	12 paise per quintal


QANTAS

Printed and Published by R. P. Agarwala, on behalf of [illegible] Ltd., [illegible] 3, Parliament Street, New Delhi, at the New India Press, Connaught Circus, New Delhi. [illegible]

EASTERN 10 ECONOMIST

Rs 1.50. MARCH 6, 1970. VOL. 54

If we allow the present momentum of growth to wane for the sake of some purely temporary advantage, we will deny ourselves the cumulative benefits of a higher rate of growth for all time to come. If the requirements of growth are urgent, so is the need for some selective measures of social welfare. The fiscal system has also to serve the ends of greater equality of incomes, consumption and wealth, irrespective of any immediate need for resources. At the same time, the needs of those sectors of our economy which require private initiative and investment must also be kept in mind in the interest of the growth of the economy as a whole. I can only hope that the proposals I have just presented steer clear of the opposite dangers of venturing too little or attempting too much.

—MRS INDIRA GANDHI

Thank God, I have gifted away Anand Bhavan in time.

EASTERN ECONOMIST

MARCH 6, 1970

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The Name of the Game

THIS CENTRAL budget is of a piece with the Prime Minister's politics of survival. It is a clever but nevertheless recognizable exercise in presenting what is good for her faction as being good for the country. Mrs Gandhi claims to have provided new incentives for saving and investment. Superficial commentators in the press or elsewhere have been duly impressed — all the more so because a blue memorandum on "Savings Schemes and Tax Incentives for Savings" has been distributed with the budget papers.

What really are the facts? The high and rising level of prices on the one hand, taken with the almost universal and absolutely legitimate desire on the part of the people to live at least a little better than their forefathers did or provide a few more comforts to their children than they themselves were able to enjoy when they were young, has made it practically impossible for the bulk of the middle class to save consistently on any appreciable scale. We are not suggesting that this part of the middle class does not save at all, but we do assert that their savings, such as they are, tend to be cancelled out over a period by extraordinary consumption expenditures such as those on marriages. It is therefore only the upper crust of the middle-class which has some ability to save. And yet it is against this particular section that the axe of income taxation has been repeatedly wielded in recent years.

The latest blow in this series seems to be one of the cruelest yet. On the specious plea of social justice but, in reality, a bid for cheap political popularity, Mrs Gandhi has sharply increased the rates of income-tax on slabs of income having any substantial saving or investment potential and she would still have us believe that her budget is genuinely concerned with the promotion of voluntary savings in the community. The quantum of savings is determined by the ability to save as well as the willingness — and Mrs Gandhi certainly is not going to convince the world that either this ability or this willingness is liable to be stimulated by politically-motivated increases in personal taxation.

The Prime Minister has made no secret of the fact that the combined effect of her proposals for increasing the rates of income-tax on the higher slabs of income, the rates of wealth tax and the rates of tax on urban land and buildings would be to bring about a sharp advance towards the ideal of a ceiling on income and wealth. It could be conceded to her that she has certainly not allowed considerations of prudence or restraint to come in the way of her forcing the pace of this advance. But, then, can she honestly believe that the central government or rather the national economy can avoid paying a price for this?

It would be naive, indeed, to expect that arbitrary curbs on income and wealth will not have a disincentive effect on initiative or enterprise. The Prime Minister and her coterie have been trying to squeeze some political advantage out of their slogan that they are resolved to befriend and patronise young or new entrepreneurs as against the established or big business houses. The orientation given to direct taxation in the present central budget however is bound to hit the hardest particularly these young or new entrepreneurs where it hurts most, viz., their hopes and plans for a bigger and brighter future for themselves. The Prime Minister's charisma, such as it is, is hardly potent enough to launch a thousand new business ships on the adverse seas stirred up by her opportunistic political budget.

It has been argued in some quarters that the fact that the Prime Minister has decided to leave the corporate tax structure virtually alone could be reasonably interpreted as an earnest of her intention to assure stability of fiscal treatment to corporate earnings so that industrial expansion could be planned and prosecuted in an orderly manner. Here is a case of the wish being father to the thought. Given the Prime Minister's political, if not personal, commitment to a policy of soaking the rich, we will have to be credulous indeed to assume that corporate profits can hope to enjoy immunity from fiscal aggression. If Mrs Gandhi has not messed up the corporate tax structure this year, it is only because the personal taxation of the rich has offered to her stronger temptations of immediate political fulfilment. Once it is decided by the government that taxation should be deployed ostentatiously for the primary purpose of establishing an advantageous political image for the party in power, it is only a matter of detail which tall poppy is cut down on which particular 28th of February.

We have no hesitation at all in forecasting that, given the chance, Mrs Gandhi will sponsor next year expropriatory taxation of the same kind against the

corporate sector as she has brought forward this year against personal income or wealth in the higher brackets. Meanwhile, the sentiment of relief, which have been indicated through the post-budget behaviour of the stock exchanges, is justified only to the extent that there has been a respite, for what it is worth, for companies and their shareholders from levies which, it was widely feared, were in the offing. To read into this passing satisfaction of the markets any reasoned assumptions of long-term import would clearly be playing into the hands of the politicians in power. Even in an abattoir, only a certain number of animals is slaughtered each day. Other doomed beasts would be only waiting their turn.

The claim that this budget is saving-and-investment oriented is not the only myth which is being propagated since last Saturday. An equally outrageous fiction is the boast that the Prime Minister, through some unique wisdom, has been able to levy Rs 135 crores of indirect taxation without any adverse effect on the cost of living and indeed with beneficial consequences of various kinds. Senior officials of the Finance Ministry have been trying hard to sell the story that the aims of these indirect taxes are only remotely connected with the raising of more money for the maintenance of the government in comfort, if not luxury. The increase in the excise duty on tea, we are told, is designed, essentially, to encourage exports. If tobacco has been taxed, it is for the virtuous purpose of discouraging a habit injurious to health. Perhaps the same motive is to be seen in the increase in the excise duty on sugar — a government which is spending sleepless nights planning for the welfare of the people, obviously, cannot be a party to the diabetics among its citizens killing themselves by indulging themselves with cheap sugar.

In fact, there is not a single excise duty proposal, or so we are asked to believe, which does not have primarily a purpose other than fiscal. The taxation of aerated water and the like, for instance, is clearly intended to counter the spread of Yankee culture through the proliferation of the Coca Cola habit. As for the increase in the import duties on foreign liquor, this, as Mrs Gandhi herself has hinted at in her budget speech, is for mollifying Mr Morarji Desai in case he still nurses a grievance over his summary dismissal from the Finance portfolio. Seriously, it cannot be gainsaid that the entire body of indirect tax proposals this time is such that its incidence would be borne by the urban population much of which is of the fixed income groups in the middle-income brackets. This, it is true, may not trouble the thoughts of the Prime Minister or her political advisers or allies, for, as the distribution of economic or social classes among the electorate goes, the people whom the indirect tax proposals of this budget may hit may not be very important in terms of the relative number of votes they may dispose of.

These, then, are some of our immediate reactions to the central budget for 1970-71 which the Prime Minister (and Finance Minister) presented to Parliament on February 28. Our observations here, obviously, do not exhaust the various aspects of the budget speech or other budget documents. We will therefore return to the subject next week in greater detail in a special Budget Number. Meanwhile, we would like to go on record as considering this budget as one which is motivated, in the main, by political rather than economic considerations. Mrs Gandhi has undoubtedly shown a fine awareness of where the votes in their greater number are and how she could keep going the network of delicate and often only half-stated alliances and understandings which her party has been trying to work out with such other political groupings as may find it profitable to do business with it. The name of the game, in other words, is power politics.

Dangers of Cost-Push Inflation

THE RAILWAY budget, presented to Parliament on February 23, has been officially described as investment-oriented. The need to step up both passenger fares and freight rates in varying degrees, it is stressed, has arisen because of the fact that, owing to the increase in operating costs, on the one hand, and the lower receipts from goods traffic than anticipated while drawing up the fourth Plan investment of Railways, on the other, the revenue surpluses which the Railways would be able to generate at the 1969-70 level of fares and freight rates, would, during the five years of the fourth Plan, have added up to only Rs 86 crores, as against Rs 265 crores envisaged. The total cost of the Railways' fourth Plan expansion programme has been assessed at Rs 1,525 crores at constant prices. The Railways themselves have to contribute as much Rs 940 crores towards this expenditure, while the rest is to be provided from the general revenues. Of the Railways' share, a sum of Rs 525 crores is to be provided from the Depreciation Fund for replacing worn out assets, Rs 265 crores from revenue surplus at the pre-fourth Plan level of fares and freight rates and Rs 150 crores from increases in fares and freight rates during the five years to 1973-74. In addition, the Railways will have to meet their dividend commitments to the general revenues. The proposed 1,525 crores investment is expected to raise the capacity of the Railways to carry 265 million tonnes of goods traffic and 2,700 million passengers in 1973-74.

With the stepping up of the fares and freight rates to bring in next year an additional sum of Rs 39 crores, the Railways now expect that they may be able to raise during the fourth Plan period about Rs 270 crores without further recourse to increases, as against Rs 415 crores required. This means that the present enhancement of fares and freight rates will not suffice and further increases will be inevitable in the years to come.

The Railway budget has come in for good deal of criticism, but more on the basis of the enhancement of fares for third class travel than on account of the proposed increases in freight rates. Perhaps the criticism has been motivated more by sentimental and political considerations than by hard economic logic. Had it been on the latter basis, the criticism ought to have been more on account of the not so "marginal" enhancement of freight rates the result of which will be accentuation of inflationary tendencies.

Freight rates have been raised in two ways — (i) through the rationalisation of the large number of classifications as at present into a smaller number; and (ii) through the stepping up of rates on some commodities directly.

On an average, the increase is said to work out around 4.2 per cent. Freight rates have been increased not only for industrial raw materials and agricultural inputs, but also for the basic necessities of life — foodgrains, salt, cloth, sugar (for domestic consumption) kerosene, etc. In the case of steel, according to the Railway Board's own calculations, the impact of increases in freight rates for raw materials and manufactured iron and steel taken together works out to six rupees a tonne. In the case of cement, it is estimated to work out to around Rs 1.50 a tonne. These calculations presumably assume that the movements of these commodities, as also of consumer goods, take place only once. They ignore the fact that for many a commodity, the movement, so far as the consumer is concerned, takes place more than once. The enchanced freight rates on the basic necessities of life are bound to be reflected in an increase in the cost of living and consequently in a higher wage bill of industrial workers in particular. According to the Cotton Mills' Federation, the increased freight rates for cotton and cloth, without compensatory rise in the prices of the end-product, cannot be borne by the textile industry.

If the inflationary tendencies in the economy gather momentum, the fourth Plan outlay apparently will have to be raised or, alternatively, the programmes in the Plan will have to be pruned. This is because the Plan assumes a fair amount of stability on the price front. So the pertinent question that arises is: what useful purpose will the increase in freight rates, or cost-push taxation in general, serve if correspondingly the Plan outlay for the given development programmes has to go up? It is time that we should bestow some thought on this issue and devise techniques for raising resources which would not unduly upset the price level.

Back to Credit Squeeze?

THE MONETARY authorities recently announced further restrictions regarding the expansion of credit in the current busy season, after the Governor of the Reserve Bank had held discussions with the custodians of the re-nationalised banks and other executives on February 18, as there has been an unprecedented increase in the borrowings of member banks from the central banking institution. These transactions have touched a new high level of Rs 215.52 crores during the week ended February 13, an increase of Rs 55.69 crores over the figure for February 6. This big rise after the heavy month-early disbursements is somewhat unexpected and many uncharitable suggestions have been made that during the brief period, when the fourteen major banks were denationalised, some unhealthy trends have emerged and new loans have been granted indiscriminately.

Nothing can be farther from the truth as there cannot be such a big injection of credit without proper procedures and an aggressive demand for funds. It is also overlooked that a good part of the increase in borrowings was exceptional as the scheduled commercial banks had to comply with the directive of the Reserve Bank to raise the liquidity ratio by one per cent. In the last busy season though resources were ample and the Reserve Bank provided liberal credit facilities advances increased at a rate much slower than expected and during the week ended February 14, 1970, borrowings of the scheduled commercial banks amounted to only Rs 107.25 crores. In the current busy season advances have risen by over Rs 300 crores so far and the banking system is in an over-extended position.

This is in complete contrast with the situation that prevailed even as recently as September last year when it was complained that funds were lying unused and even with the expansion of credit for priority purposes banks could invest sizable amounts in government securities. These investments have been useful in the past few weeks as apart from the fresh growth in deposits of Rs 147 crores there has been disinvestment of securities for over Rs 80 crores. Money market commentators have been pointing out that banks have been liquidating heavily securities without taking into consideration the fact that there were earlier purchases which resulted in the liquidity ratio being maintained at a level much higher than the statutory minimum. Even so with a compulsion to invest additional amounts out of fresh deposits borrowings from the Reserve Bank have been heavy and the bankers are of the feeling that a further increase in advances can be effected only with fresh borrowings from the central banking institution as new additions to deposits may not be impressive.

What exactly will be the extent of demand till the end of March is anybody's guess. But having regard to the fact that heavy tax payments, a further rise in sugar stocks and larger arrivals of raw cotton may bring about a fresh rise in advances by over Rs 120 crores (which was the order of expansion in two weeks ending March 14, 1969) during the fortnight ending March 13, 1970, the Reserve Bank's policy cannot be said to be quite helpful. Mr L. K. Jha has admitted that there has been a higher level of economic activity, a continuing accumulation of sugar stocks and expansion of credit for priority purposes under the new policy initiated by the government.

It should be said that the policy of deliberate extension of credit facilities to borrowers in the agricultural sector and small-scale industries and the new policy directing member banks to raise the liquidity ratio by one per cent have exaggerated the situation in the money market. When the increase in advances of this type may be over Rs 100 crores and a higher liquidity ratio will be immobilising additionally about Rs 50 crores, it may well be argued that in the absence of these special factors borrowings from the central banking institution would have been only about Rs 65

Eastern Economist 25 Years Ago

MARCH 9, 1945

At its annual meeting the Federation of Indian Chambers of Commerce and Industry passed a resolution inviting the attention of the Government to the need for making an early declaration of their policy in respect of (among other things) "the measure and extent of protection to be extended against internal and external competition to Indian industries both in existence and those that may be started hereafter". An aspect of competition arising from non-Indian industries already within the country and from new foreign enterprises which may be established hereafter has been dealt with in the previous article. We are here concerned with the question of the kind of protection which Indian industry will require immediately after the war and the type of authority which should be set up to recommend such protection. Already and even before the war has ended, industry is permitted, thanks to a lack of a unified policy, to face the unfair competition from imports of consumer's goods which the Government is itself arranging for without reference to the interests of and effects on local production. If when the war ends the country has no clear policy in respect of protection of those industries which have grown up during the war and which may have strong survival value, there would be nothing left for protection; because by the time Government chooses to act, they would already have succumbed. Hence the urgency of immediate enunciation of policy.

crores, much below the level for the corresponding period of last year (Rs 107.25 crores). Some adjustments have of course to be made for the release of funds as a result of lower advances for procurement purposes for about Rs 40 crores.

It may well be asked whether a difficult situation had not been brought about by a deliberate canalising of funds in some directions and that as a result of the financing of procurement operations the grant of loans to borrowers in the agricultural sector and small-scale industries and larger investments in government securities, the conventional borrowers are now being denied even their usual facilities. With a fast growth of deposits and a stable level of prices it was expected, apparently, that there would not really be any need for rationing credit and with the opening of branches in unbanked areas, the dispensation of credit to new class of borrowers may by itself lead to the generation of fresh deposits.

This process, however, will take some time as in the earlier stages funds will be going out of the system though here again it may be pointed out that, except where cash payments are involved in the shape of wages or other items, purchases of agricultural inputs, tractors and implements should be reflected in a reduction in inventories of others and the net strain should not be severely felt. With a rising level of production there may be some neutralising factors. But it can be safely expected that in the forthcoming slack season there will be a return of funds from many directions besides a record growth of deposits so that the excesses in credit expansion, if they can be so called, can be easily corrected.

It is not, therefore, right for the monetary authorities to overlook the realities of the situation and adopt orthodox measures for curbing credit only in some directions. Such a move might have a discouraging effect on production and accentuate inflationary pressures. It has to be remembered that apart from the larger purchasing power for the agricultural income groups by itself being responsible for new demands of consumer and durable goods the loans granted to small borrowers, if they are applied for the intended purposes, will lead to a bigger offtake of diesel engines, tractors, pumpsets, electric motors, fertilizers, pesticides, high-yielding seeds and other items. There will be no difficulty in getting fertilizers or pesticides for some time as there are heavy stocks on hand. The output of other items, however, will have to be stimulated if the new policy of liberal credit expansion and larger expenditure on Plan schemes is to be successful and is not to result in a repetition of the happenings of the earlier years of the third Plan period. It may not be correct to make a comparison between conditions which are fundamentally dissimilar; but the continuance of the green revolution for three seasons in succession clearly shows that the capacity of the economy for absorbing a rising volume of goods and services has considerably improved and apart from utilising fully the existing capacity of industries there will have to be special plans for creating new capacity in particular directions.

The Reserve Bank has therefore a duty to allow free play to the new constructive forces and a policy of over-loaning of funds, as was done in Japan a decade and a half back, may have to be followed if the rate of economic growth has to be raised to six per cent annually and even higher. Any attempt to restrict refinance facilities will only result in unmanageable bottleneck and create confusion besides giving a temptation to banking institutions to raise interest rates. Already the rate on advances against cotton and oilseeds has been jacked up to a minimum of 10 per cent while the same rate is also being charged for discounting hundis. Whether higher rates could be dictated by the banks when granting fresh credits in the next few weeks remains to be seen. If the situation can somehow be managed till the end of April and there is again a successful agricultural season in 1970-71 the adjustments to a higher level of banking activity and competing demands for limited resources could be easily brought about. No useful purpose would be served by exaggerating the developments in the past few weeks though credit will have to be restricted against commodities in short supply. The Reserve Bank has to live up to its new role and an integrated approach should be adopted so that no section of the borrowing community is unduly penalised.

Indo-Iran Co-operation

THE CLOUDS that had gathered over the centuries-old relations between Iran and our country in the mid-sixties, especially at the time of the Indo-Pakistan conflict in 1965, are fast dissolving. A thaw had been created by the Iranian decision to collaborate in the setting up of the Madras oil refinery and a fertilizer plant adjoining this refinery. Subsequently, the visits of Mr Morarji Desai, Mr Asoka Mehta, Mr Dinesh Singh, Mr K.C. Pant and exchange of visits by other Indian and Iranian government leaders and officials helped improve these relations. Early last year, the state visit of the Shahenshah of Iran to this country further contributed to this wholesome trend. A big boost to the restoration of cordiality in the relations between the two countries can be expected as a result of the deliberations of the second meeting of the Joint Indo-Iran Commission for Economic, Trade and Technical Collaboration which was held here from February 14 to 16.

Two agreements have been approved at this meeting. Under one we will be importing from Iran sizable quantities of liquid ammonia, phosphoric acid and sulphur. The imports of ammonia and phosphoric acid will start in 1972 and will be spread over a period of seven years, the quantities involved being one million tonnes of ammonia and 450,000 tonnes of phosphoric acid. As regards sulphur, we will import between 70,000 and 120,000 tonnes of this commodity during the current calendar year. Next year these imports will be

Government will take particular care of the weaker sections of the Community
—The President

between 100,000 and 120,000 tonnes. Further similar or larger quantities of sulphur imports will be negotiated for the subsequent five years. Under the other agreement, Iran has promised to purchase from our country 492 railway wagons immediately. Following an assessment of the requirements of Iranian railways and the possibilities of setting up production facilities in Iran itself, further quantities of wagon imports by Iran (pending the establishment of production facilities there) may be negotiated in not-too-distant a future.

On the face of it, the above understanding is weighted heavily in favour of Iran. It will accentuate further the unfavourable trade balance we are having with it on account of large imports by us of crude oil. But a significant principle has been approved at the joint commission's meeting; this is that the additional trade between the two countries will be by and large balanced. This should indicate that Iran will make further efforts to identify commodities which it can import from us to balance, over a period of time, the exports it will be making to us. At the joint commission's meeting, it pressed for our exporting to it sizable quantities of billets, structurals and joists for a period of five years. But the proposal could not be accepted because of our difficulties in stepping up the production of these products. So search has got to be made to identify some other commodities which we have in surplus and which Iran needs. Possibly the answer will be Iran importing various engineering products such as tools, textile machinery spares, automotive parts, etc., from this country.

But a far more important outcome of the joint commission's meeting than the above two agreements is the inclination shown by Iran to have our collaboration in joint ventures there. Several areas of collaboration have already been identified. These include manufacture of railway equipment, liquid ammonia, spong iron, drugs and pharmaceuticals and slag cement, and the establishment of agriculture and forest based industries. Assistance is already being provided by us in the development of small-scale industries in Iran. We are in a position to undertake turnkey jobs in several other industries also. We can as well offer technical services and equipment for the development of road transport in Iran and harnessing of its water power resources there. If some of these collaborations materialise, the economic co-operation between Iran and our country can indeed deepen considerably. The possibilities can also be explored of a tripartite collaboration among our country, Iran and a third developed country under which part of the machinery and equipment, especially the less sophisticated and labour-intensive items, required by industries to be set up in Iran can be had from here.

Another significant field in which the joint commission showed special interest was the development of transit traffic. It approved the joint traffic survey for the improvement and better utilisation of the existing facilities and desired that long-term possibilities may be studied more comprehensively by the two sides so that at the next meeting of the commission, to be held in October this year, concrete and feasible decisions could be taken in regard to further work in this field. The opening of a land or sea-cum-land route (in case it is not possible to persuade Pakistan join this scheme) through Iran can give a fillip to our trade with Europe, for after the closure of the Suez Canal, this trade has to be carried on via the long route around the Cape of Good Hope, involving a good deal of additional freight.

Given continued goodwill on the part of both our government and Iran, the joint commission's deliberations can open a new chapter in the relations between the two countries. To a very great extent the economies of this country and Iran are complementary to each other. If these bilateral attempts, along with the efforts at regional co-operation under the aegis of the ECAFE, are successful, both the countries can benefit tremendously. India is a natural market for the vast petroleum and natural gas resources of Iran. Iran can draw upon our industrial growth and technical services for its own development.

Goodwill Galore

High-powered delegations from the United Kingdom and West Germany have visited our country in recent weeks and they have all been highly impressed with the economic progress achieved by us so far. What is more, both the UK and West Germany have shown keen interest in hastening the pace of economic co-operation with our country. Sir Norman Kipping, one of the foremost leaders of British industry who participated in the three-day Indo-British technological meeting in the capital, went so far as to say that our country had something to give to the UK. Mrs Judith Hart, British Minister of Overseas Development, who signed two agreements in the capital providing further aid to our country equivalent to Rs 18.36 crores, remarked that among other things she would examine if there were any ways in which the UK could help this country's agricultural, and particularly, rural development. Mr Walter Scheel, Foreign Minister of the Federal Republic of Germany, "paid tribute to India's rapid progress", according to the joint communique issued at the end of his tour of our country. Earlier the Abs mission had shown enthusiasm for increased collaborative efforts between German and Indian business firms provided some of the bureaucratic irritants were removed by the Government of India.

The technological group which discussed the gaps which existed in our industries in relation to technology as well as production, pointed out that some of the Indian companies which had been set up in collaboration with British firms—and included in this group are International Computers Ltd (ICL), Hindustan Lever and Lucas TVS—have improved upon the technical know-how received from the parent companies and have acquired expertise which they could share with them (the parent companies). According to Sir Norman Kipping, this could be made possible only through the liberalisation of the policies of the Government of India in relation to sale and purchase of technical know-how. He dilated upon the differences in the policies pursued by the UK, Japan and our country in this regard. In Britain, he said, the import of technology and the terms governing any such agreement are left to the company concerned and the government does not come into the picture at all. In Japan, the individual companies enjoy great freedom regarding collaborations with foreign firms and the government disallows only those agreements which in its view are detrimental to national interests. Only in our country, the government had laid down certain norms for all cases and agreements had to be within their bounds. This was, according to Sir Kipping, not conducive to increased technical and financial collaboration between the two countries.

One of the fields in which there was scope for immediate co-operation, related to the manufacture of tools and jigs in which British firms had acquired specialised techniques of manufacture. Collaboration between Indian and British firms in this industry could be useful for our industry, according to Sir Kipping. The co-operation between the two countries could also be extended so as to establish industrial units in third countries, especially in south-east Asian countries. Again,

some of the British firms which had entered into collaboration agreements with Indian companies have stopped the manufacture of some of the products and have asked their collaborators to export them to the markets which were hitherto held by the British firms; a part of the increase in our export of non-traditional goods in recent months is reported to be due to this reason.

In her 14-day tour of our country, Mrs Judith Hart, the British Minister of Overseas Development, acquired "firm understanding of our diverse needs, especially those of foreign exchange. She said at a press conference in New Delhi on February 11, that Britain had aimed at increasing multilateral aid from 11 per cent to 15 per cent of the total aid in a year in view of the demand of the developing countries for such aid even though she was of the view that bilateral aid could be used much faster than multilateral aid.

The UK government has facilitated the implementation of the fourth five-year Plan projects by indicating that in the next four years the United Kingdom would provide project aid at the current level of £13 million a year. This is a gesture of goodwill which is highly appreciated by the Government of India. The upshot of Mrs Hart's discussions with government officials as well as private businessmen and industrialists was that there was considerable scope for a two-way exchange between the two countries especially in regard to research and development in industry.

Mr Walter Scheel's visit was equally fruitful in the sense that it became clear that the West German government was willing to assist this country in the establishment of industrial units in the priority sector. Indications have been given that West Germany will provide credit and technical assistance for the completion of at least two fertilizer plants in the next four years. The West German private firms have also shown willingness in the establishment of joint ventures in third countries. This is a happy development because the exports of machinery from our country can be increased by joining hands with some of the well-known West German firms.

The way for Mr Walter Scheel's fruitful discussions in the capital had been paved by the Abs mission which had already reported to the government in West Germany. The recovery in industrial production in our country with the disappearance of the recession and agricultural prosperity accompanying the "green revolution" seem to have left a good impression on both the Abs mission and Mr Walter Scheel.

According to newspaper reports, the West German Foreign Minister is also reported to have offered West German co-operation in expanding the Rourkela steel plant up to five million tonnes capacity. The only disconcerting element in Indo-German relations has been the large unfavourable trade gap which we have had for more than 15 years. Various efforts made in recent years have brought forth some improvement but only of limited value with the result that the trade gap does not show any significant signs of reduction. It is a good sign that industrialists in this country agreed to the suggestion made by the Abs mission that accent should be put on quality control and for this purpose German engineers and inspectors could supervise the production of goods for export to West Germany. If the confidence of the German buyer can be had through such inspections, it is indeed small price for promoting our exports. It is not that the manufacturers in our country are not willing to provide quality goods at competitive prices and to honour their commitments according to the agreed schedule of timings; their main handicap is that they do not know the types of goods which will sell in West Germany. Only in recent months some engineering goods have entered the West German market but their total value in a year is a small fraction of the gap in trade. The hint was dropped by Mr Walter Scheel that West Germany would maintain the level of assistance to our country at the same level as in the current year.

All in all, the visits of foreign dignitaries from these two friendly countries have strengthened the bonds between our country and theirs and efforts are likely to be intensified for increased trade and aid relations which should be of mutual benefit.

Implications of the 'Banking' Judgment

DR A. APPADORAI

THE JUDGMENT of the Supreme Court on the Act nationalizing banks, delivered on February 10, is essentially a legal decision; it is, however, bound to have important political implications, in particular, through the clarification of the concept of law with reference to fundamental rights.

I said, essentially, the Court's decision is a legal decision. What the judges said was that the petitions which challenged the Banking Companies (Acquisition and Transfer of Undertakings) Act of 1969 were allowed and they declared that the Act referred to above is invalid for the following reasons:—

(i) It makes hostile discrimination against the fourteen acquired banks in that it prohibits these banks from carrying on banking business whereas other banks—Indian and foreign—are permitted to carry on banking business, and even new banks may be formed which may engage in banking business. It may be recalled that Article 14 of the Constitution says that the state shall not deny to any person equality before the law or the equal protection of the laws within the territory of India. "The petitioner" is on firm ground, the court held, in contending that when after acquiring the assets, undertakings, organisation, goodwill and the names of the named banks they are prohibited from carrying on banking business, whereas other banks — Indian as well as foreign —are permitted to carry on banking business a flagrantly hostile discrimination is practised. Section 15 (2) of the Act which by the clearest implication prohibits the named banks from carrying on banking business is, therefore, liable to be struck down."

Restricting Factors

Further, while in theory the Act permitted the fourteen banks to carry on business other than banking business, "no attempt is made to support the Act which, while theoretically declaring the right of the named banks to carry on non-banking business, makes it impossible for the banks to carry on any business", for compensation was paid in such a form that it was not immediately available for restarting any business, and their buildings, staff, furniture and the entire organization were taken away; the effect of these two restricting factors was that, for all practical purposes, the banks could not carry on even non-banking business.

(ii) The Act violated the guarantee of compensation provided for under Article 31 (2) of the Constitution. The Article stipulates that "no property shall be compulsorily acquired or requisitioned save for a public purpose and save by authority of a law which provides for compensation for the property so acquired or requisitioned and either fixes the amount of the compensation or specifies the principles on which, and the manner in which, the compensation is to be determined and given; and no such law shall be called in question in any court on the ground that the compensation provided by that law is not adequate."

Government's Prerogative

It is interesting that the judges do not question the part of the Article which says that "no such law shall be called in question on the ground that the compensation provided by that law is not adequate"; their finding is that the Act provides for giving certain amounts determined according to principles which are not relevant in the determination of compensation of the undertaking of the named banks and by the method prescribed the amounts so declared cannot be regarded as compensation. "We are unable to hold", they wrote," "that a principle specified by Parliament for determining compensation of the property to be acquired is conclusive. If that view be accepted, Parliament will be invested with a character of arbitrariness and by abuse of legislative process, the constitutional guarantee of the right to compensation may be severely impaired. The principle specified must be appropriate to the determination of compensation for the particular class of property sought to be acquired. If several principles are appropriate and one is selected for determination of the value of the property to be acquired, selection of that principle to the exclusion of other principles is not open to challenge, for the selection must be left to the wisdom of Parliament."

These legal lacunae pointed out by the eminent judges, it is interesting to note, have now been sought to be filled by the Ordinance promulgated on 14 February, and in particular by drastically revising the quantum and the method of compensation now payable. The total quantum of compensation has been increased by over a third, and a part of the compensation, if preferred in cash, is immediately available. The "hostile discrimination" pointed out by the judges discernible in the Act in thus attempted to be done away with.

The political implications of the judgment are, in my view, fourfold: The principle of the Rule of Law, re-affirmation of the proper sphere of the judiciary, the relation of law to fundamental rights and the work of the Prime Minister. Each of these needs elaboration :—

(i) *The principle of the rule of law*: A study of the political comments on the Supreme Court's historic decision makes sad reading in that most of these comments miss the substance of the Court's decision. Thus one Minister is reported to have said "that serious note must be taken of the consequences of the judgment on the aspirations of the people". Two Members of Parliament, Mr Arjun Arora and Mr K. D. Malaviya, in a joint statement, said that the Supreme Court's judgment had caused widespread disappointment to the people and the only alternative for Parliament was to remove the right to property from the Constitution. Yet another Member of Parliament, Mr Mohan Dharia, thought that the Supreme Court verdict was a "major setback" and added that he was convinced that "as long as the right to property remains a fundamental right in our Constitution, it will never be possible for any government to implement socialistic measures".

Basic Nature

Most of these comments ignore the basic nature of the Supreme Court's decision. That decision is in essence the assertion of the Rule of law. A law made in haste may in effect not be true law, in accordance with the various provisions of the Constitution; it is the judges' duty to assert the supremacy of 'law' by examining the legality of what purports to be law. In fact the court deserves our appreciation for discharging its professional duty with "dignity, courage and erudition"; in so doing it has reasserted the importance of the rule of law as an element of democracy. It may be added that the brilliant arguments of the counsel for the petitioner, Mr Palkhivala, helped to bring out the implications of the 'law'.

(ii) *Reaffirmation of the proper sphere of the judiciary*: It is a time-honoured dictum that the sphere of the Court is in terms of "art, not of philosophy", i.e. the Court's duty is to interpret a law,

i.e. to dissect the meaning of words in a statute to see whether they conform to the Constitution, and not to make pronouncements on the desirability or otherwise of the policy given effect to by the statute. In classic words, the Court has restated this principle:

> This court has the power to strike down a law on the ground of want of authority, but the court will not sit in appeal over the policy of Parliament in enacting a law. The court cannot find fault with the Act merely on the ground that it is inadvisable to take over the undertaking of banks which, it is said by the petitioner, by thrift and efficient management had set up an impressive and efficient business organisation serving large sectors of industry.

Jurisdiction of the Court

Again, in another part of the judgment it lays down a dictum which also enables the Court to steer clear of politics. "It is not the object of the authority making the law impairing the right of a citizen, nor the form of action taken that determines the protection he can claim: It is the effect of the law and of the action upon the right which attracts the jurisdiction of the Court to grant relief. If this be the true view, and we think it is, in determining the impact of state action upon constitutional guarantees which are fundamental, it follows that the extent of protection against impairment of a fundamental right is determined not by the object of the legislature nor by the form of the action but by its direct operation upon the individual's rights."

(iii) *The relation of law to fundamental rights*: The expression 'law', declare the judges, means a law which is within the competence of the legislature and does not impair the guarantee of the rights in Part III. Starting from this premise, the learned judges refuse to accept the theory so far developed in judicial pronouncements that certain Articles of the Constitution enact a code dealing *exclusively* with matters dealt with therein, and the protection which an aggrieved person may claim is circumscribed by the object of the state action. In their Lordships' view, "the assumption in A.K. Gopalan's case that certain articles in the Constitution exclusively deal with specific matters and in determining whether there is infringement of the individual's guaranteed rights, the object and the form of the state action alone need be considered, and effect of the laws on fundamental rights of the individuals in general will be ignored cannot be accepted as correct. We hold that the validity of 'law' which authorises deprivation of property and a 'law' which authorises compulsory acquisition of property for a public purpose must be adjudged by the application of the same tests." The interpretation of various parts of the Constitution in their effect on fundamental rights is stressed—with far-reaching implications on the preservation of the rights guaranteed to the individual by the Constitution.

(iv) *The work of the Prime Minister*: The need felt by the government for enacting a re-nationalization ordinance brings out the importance of a working principle which I have earlier stressed in these columns. It is not advisable even for the most hard-working Prime Minister to be in charge of any ministry, let alone a heavy one such as the Finance. Our Prime Minister has so much to do—to keep herself informed of national and international affairs, to keep in touch with the people, to maintain the unity of the party, to coordinate the work of all ministries and to be present in Parliament when it is in session—that it would be difficult to do justice to the heavy work involved in presiding over any one Ministry. The press has correctly pointed out that the LIC nationalization law was not questioned in the Court; the Prime Minister, as Finance Minister, had obviously no time to devote to those essentials in a Bill which ought to be looked into.

Sinning Against Industrial Growth

R. V. MURTHY

NOW THAT the new licensing policy has at last been announced, it is worth examining how it would affect the big industrial houses or foreign collaboration which mostly goes with industrial ventures undertaken by these industrial houses.

What the new licensing policy has done is not only to further restrict the activities of the 20 larger industrial houses, but also to enlarge the ambit of the public sector even beyond the core sector, i.e., basic, strategic and critical industries. Hitherto, the private sector had at least one field where it could carry on its own without fear of any encroachment from the public sector. As a result of the new policy, however, whereas industries in schedule A of the Industrial Policy Resolution are wholly reserved for the public sector, the big industrial houses have not only to compete with the public sector in core industries but also to refrain from the middle sector and, what is more, subject themselves to licensing provisions in every case. It is small consolation to these houses that, in respect of middle sector industries under their control, they would be allowed to expand to economic levels of production (the term "economic level" is so vague; besides, the concept of "economic level" goes on varying so fast). This is only a half-hearted recognition of the economies of scale, especially in these days when the new international economy is so dominated by size and technology, as witness the vision of Servan-Schriber in his best-seller *The American Challenge*.

A timely note of caution about the effect of restrictions on the growth of the bigger houses was sounded by Mr V.G. Rajadhyaksha, the new President of the Bombay Chamber of Commerce and Industry at the last annual general meeting of that body. He referred to a recent survey to draw attention to what would happen if a dozen of the largest companies belonging to the Bombay Chamber and operating in a wide range of industries were pegged at their current levels of production. "All of these companies," he said, "would move from being a moderately profitable position today into a loss position within three to seven years, assuming selling prices could not be raised, as is often the case on account of controls or competition, and allowing for overheads and other costs, over which little or no control is possible". He also made the important point that "as long as restrictions are placed on the growth of the larger business houses, both Indian and foreign controlled, the stamina and resources required to overcome the practical difficulties, high cost and long gestation period of opening up the backward areas will be hard to find". In other words, such a restrictive policy would defeat the national objective of removing regional imbalances. Accordingly he appealed to the Maharashtra government (this was, of course, before the new policy was announced) "to use their considerable influence on the policy-makers of the central government to see that the many large and reputable business houses (which this state nurtures) are not allowed to wither.

One disturbing feature of the new industrial licensing policy is that it permits the public financial institutions to exercise the option for converting loans and debentures into equity in respect of all future assistance and also in regard to past loans and debentures in cases of default. As Mr Babubhai M. Chinai, MP, observed in a press note, "this may prove a deterrent to foreign collaborations" and whatever

we may say, we cannot afford to minimise the importance of foreign collaborations whether they be for technical know-how, as we had to go in for to begin with, or for supplementary finances, as we have been obliged to seek latterly, thanks to the scarcity of foreign exchange. It may not be out of place to refer here to two notable contributions recently made to public thinking on this subject, one by Mr H. V. R. Iengar, Chairman of the E.I.D.-Parry group of companies, and the other by Mr H.M. Patel, a former Principal Finance Secretary to the Government of India, both of them distinguished civilians. Mr Iengar's observations were made in the course of his inaugural address to the last annual general meeting of the Indian Machine Tools Manufacturers' Association in Bombay, while Mr Patel's formed the main theme of his lectures on "The role played by foreign collaboration agreements in the industrial development of India", at the Sydenham College also in Bombay (Sydenham College Golden Jubilee Foundation Lectures).

Significant Points

Referring to the question of technical collaboration with foreign enterprises, Mr Iengar briefly traced this country's experience of borrowing of technology from foreign countries over the past several years and made out two significant points : first that technological changes in the advanced countries are extremely rapid and it is the easiest thing in the world for us to be overtaken by obsolescence, and second, that we are a late starter, which we cannot but recognise. He went on: "Other countries have had a long lead over us and, during that time, have spent enormous sums of money in research and development. It seems to me common sense that we should import the latest technology available from advanced countries and build on it rather than start virtually from scratch. In a desire to encourage local talent, I am afraid government have often fallen into the error of denying to the country the fruits of imported technology, thereby enormously delaying projects and often leading to the utilisation of obsolescent technology. I think a less rigid and dogmatic approach is called for on the part of government."

In the course of his two lectures, Mr Patel selected three important yardsticks for the evaluation of the role of foreign collaboration—contribution to domestic resources, making available more sophisticated know-how and techniques and contribution in promoting exports. His considered conclusion was that, while the basic tenets of government's policy in this sphere were sound by and large, we have not been able to obtain all the advantages which we could have legitimately expected to flow from such collaborations to developing countries. But this is more because of our own shortcomings than due to these collaborations as such, as Mr Patel himself pointed out. He was not averse to foreign collaborations, however, be it noted. What he insisted on was a realistic approach to foreign collaborations so as to squeeze the best out of them, and, to be able to do this, he reminded his audience, we should be neither sensitive nor indiscriminate. "There is no scope", he said, "either for unnecessary sensitiveness towards any offer, or for indiscriminate acceptance of all the proposals for foreign collaboration. After all, partnerships of every variety are for mutual benefit, and foreign collaboration is no exception". This warning comes a day not too soon, judging from our experience of collaboration agreements with some foreign countries in respect of a few of our basic industries such as fertilisers and heavy engineering.

A Profile of Progress

BIRENDRA KUMAR

At the end of the Plan pause and resumption of planning process it would be worthwhile to have a look at the standard of living of Indian people. This aspect of our development has received scanty notice so far. It is a common belief that the fruits of growth have not been equally shared and the living standards of the people have not shown any significant improvement. This article spotlights the gigantic task facing the country. In the midst of poverty the goal of socialism, still remains an illusory, distant dream. However, it may be pointed out that due to non-availabilility of sufficient data any attempt to determine the extent of poverty would be nothing more than a broad indicator of the problem.

The increase in national and per capita income and consumption provides the basic data for measuring the level of income of the people as "per capita consumption is a convenient overall measure of the standard of living.".*

Taking per capita income in 1966-67 at 1960-61 prices, the average monthly per capita income comes to Rs 26 or Rs 0.87 per day. This is the all-India average, though there are wide regional disparities of income. The estimates of the per capita income of three states in 1964-65 are given below :—

		Rs
Punjab	..	619
Maharashtra	..	529
Bihar	..	292

The regional disparities in monthly and daily incomes varies from Rs 51.6 and 1.72 (highest) to Rs 24 and 0.81 (lowest) respectively. It is important to note that the regional disparities have widened in course of the three Plans. Between 1950-65 the difference between Punjab and Bihar has gone up from Rs 323 to Rs 328, between Maharashtra and UP from Rs 102 to 155, between Maharashtra and Kerala from Rs 69 to Rs 138. The facts clearly reveal that despite an overall increase in per capita income the disparities increased between developed and less developed states. This is a sad commentary on our planning efforts, and

*Report of the Committee on Distribution of Income and Levels of Living, Part I p. 5.

Table I

NATIONAL INCOME, PER CAPITA INCOME AND NATIONAL GROWTH: 1960 TO 1966

	Conventional Estimate				Revised Estimate			
	1960-61		1966-67		1960-61		1966-67	
	At current prices	At 48-49 prices	At current prices	At 48-49 prices	At current prices	At 48-49 prices	At current prices	At 48-49 prices
National Income (Rs Cr.)	14140	12730	23120	14950	14189	14190	25621	16760
Per Capita Income (Rs)	325·8	293·8	460·8	298·0	310·0	310·0	481·53	313·1
Annual Growth Rate 1960-66	..	..	..	..	9·4	3·0	6 8	0·3

Source: Economic Survey, 1967-68.

becomes worse when looked in a broader international perspective. The per capita incomes in 1965 in US$* of some selected countries are given below :—

West Germany		1510
Japan	..	696
UK	..	1451
USA		2893
India	..	89
Pakistan	..	87
Ceylon	..	129

"The of living of the people as a whole is determined mostly by that part of the national income as is used directly for private consumption. to this should be added that part of government expenditure which is devoted to education, care of health etc."†

The level of consumption can be assessed by adjusting the saving and taxes in the per capita income. But this generalised concept is of little relevance, as the level of consumption of the different strata of society is unequal. Hence a study should be directed towards determining the consumption level of different fractile of population. In the past, several attempts have been made to measure the monthly or daily per capita expenditure of fractile population, and the results provides as a base for projecting the general trends. The relevant statistics as revealed in the studies of (a) National Sample Survey, 17th Round; (b) NCAER's sample surveys of urban and rural households in 1960; and (c) Planning Commission's Working Group on Minimum National Income, 1962, are given in Table II.

Depth of Disparity

Although it is difficult for us to arrive at a definitive quantitative levels of living—in spite of the marginal differences which are inherent in such enquiries — it gives us an indication of depth of disparities existing in the different strata of society. According to NSS the top 20 per cent of our population accounts for 41.88 per cent (urban) of our income while the bottom 20 per cent receives only 7.99 per cent of our total income.

As the figure cover the period 1956-62 it is imperative to readjust per capita monthly expenditure for the year 1965-66, (the last year of the third Plan). Taking Working Group's estimates as the most up-to-date and comprehensive we can devise two alternative methods for determining the levels of expenditure in 1965-66.

*India, Pocket Book of Economic Information, 1967 Pp. 176-7.

†Report of Committee on Distribution of Income and Levels of Living, p. 5.

(1) By increasing the per capita income with 1.7 per cent increase during the third Plan period, assuming constant pattern of distribution and saving, or

(2) By taking Planning Commission's estimates of per capita expenditure in 1964-65 as the basis and distributing the same on different fractile in proportion to income distribution.

To minimise the margin of error the average of the two can be taken as the tentative estimate of per capita monthly expenditure. The results are given in Table III.

In the present economic conditions it is difficult to define minimum level of income for the country as a whole. A well defined concept of national minimum is yet to emerge. A working group which reported to the Planning Commission in July 1962, had suggested that such a national minimum should not be less than Rs 20 per capita per month, at 1960-61 prices, or Rs 100 per household of five persons. This excludes provision of health and education. According to the same source a minimum of Rs 35 was required if health and education was included in it. As these minimum levels were estimates for 1962, an upward revision is essential to bring it in conformity with the rise in price level. During 1961-66 the consumer price index increased by 35

TABLE II

(In Rs.)

Fractile group of population	Share of Total Cons. NSS 15R		Share of house income (pre-tax) NCAER		Average Exp. per month NSS 17R 60-61		Average monthly per papita exp. W.G. '62
	Urban	Rural	Urban	Rural	Urban	Rural	
1	2	3	4	5	6	7	8
0-10	3·33	3·40	1·3	0·7	11·55	9·09	9·60
10-20	4·66	49·94	2·7	3·3	10·04	8·09	12·16
20-30	5·67	5·82	3·6	4·5	13·88	10·67	15·20
30-40	6·34	6·69	4·5	5·6	16·61	12·82	17·90
40-50	7·44	7·68	5·4	6·6	21·94	16·47	20·80
50-60	8·30	8·61	6·5	7·7	25·50	18·79	24·30
60-70	10·21	9·93	8·1	9·5	27·68	21·25	28·60
70-80	12·17	11·74	10·3	12·1	35·65	24·70	34·60
80-90	15·88	14·42	15·2	16·4	43·86	29·95	45·10
90-100	26·00	26·77	42·4	33·6	88·76	51·16	n.k.

TABLE III

Fractile Group	Method (1) Average monthly expenditure	Method (2) Average monthly expenditure	Average of two
0-10	9·79	7·60	8·70
10-20	12·40	11·70	12·05
20-30	15·50	14·40	14·95
30-40	18·26	16·00	17·13
40-50	21·22	17·71	19·97
50-60	24·79	21·10	22·95
60-70	29·17	30·00	29·50
70-80	35·39	31·20	32·25
80-90	46·00	40·60	43·30
90-100	90·50*	66·09	78·11

(1) Based on 1·7 per cent (rounded) rate of per capita increase 1948-49 prices during the third Plan.

(2) Based on the total estimates of per capita expenditures of Rs 305 in 1964-65 (Draft fourth Plan. Material and Financial Balances 1964-76, p. 146) and apportioned on the basis of NSS 15th Round percentage of income distribution.

*Based on N.S.S. 17th R.

per cent, the corrected national minimum in 1965-66 should be as given below :—

	1961-62	1965-66
	Rs	Rs
National Minimum excluding health, education	20	27
National Minimum including health & education	35	47

Thus at 1965-66 prices, per capita income of Rs 27 per month should be treated as 'subsistence level' and that of Rs 47/50 as 'level of reasonable living.' Those who are on either side of these figures are either living below 'bread line' or having a 'comfortable living.'

Having determined broadly the levels of income for the different fractile groups of population and the line of subsistence, a profile depicting the living condition of our masses can be summed up in Table IV.

The table shows that 60 per cent of our population lives below 'subsistance level'. Particularly the bottom 20 per cent of our population received even less than 50 per cent of our national minimum of Rs 27 and are undoubtedly living below 'bread line'.

TABLE IV

Fractile group	Per capita monthly income (1965-66)
	Rs
0-10	8.70
10-20	12.05
20-30	14.95
30-40	17.13
40-50	19.97
50-60	22.95
60-70	29.58
70-80	33.25
80-90	43.30
90-100	78.11

The above picture of poverty of Indian masses, is sufficient to indicate the magnitude of the problems faced by planners in our country. Long and sustained efforts would be required to provide even a minimum to our semi-starved multitude. For providing a minimum income of Rs 20 only per month by 1975-76 the national income will have to be raised to about Rs 58,000 crores from Rs 19,000 crores in 1965-66 which implies a four fold increase in the national income or an annual rate of growth at 27 per cent, and would claim investment of the order of over Rs 1,00,000 crores, which seems fantastic.

It is true that what has been achieved is less than what was needed and sought. But this should not divert one's attention from the fact that an economy which had for decades prior to adoption of planning been growing at the rate of barely 1 per cent has since 1950-51 been expanding at over thrice that rate.

The task requires greater attention and effort than given hitherto. The prevention of the growth of disparities and possibilities of restraining incomes and standards of consumption of the affluent sections of society have also to be considered. It is high time that positive income policy was formulated fixing a 'floor' as well as a 'ceiling' on individual incomes.

EASTERN ECONOMIST

Statement about ownership and other particulars as required by Clause 19-D of the Press and Registration of Books Act:

1. Place of Publication :	New Delhi.
2. Periodicity of its Publication :	Weekly.
3. Printer's Name, Nationality and Address :	R. P. Agarwala, Indian, c/o The Eastern Economist Ltd., United Commercial Bank Building, Parliament Street, New Delhi.
4. Publisher's Name, Nationality and Address :	Same as (3) above.
5. Editor's Name, Nationality and Address :	Mr. V. Balasubramanian, Indian, c/o Eastern Economist, New Delhi.
6. Names and addresses of individuals who own the newspaper and partners or shareholders holding more than one per cent of the total capital.	1. Birla Jute Mfg Co. Ltd., Calcutta. 2. Bharat Arogya Mandir, Calcutta. 3. Pilani Investment Corpn. Ltd., Gwalior. 4. Birla Cotton Spg. & Wvg. Mills Ltd., Delhi. 5. Sutlej Cotton Mills Ltd., Amritsar.

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FROM THE PRESS GALLERY

TAXATION DOSE HEAVY

OUR PARLIAMENTARY CORRESPONDENT

NEW DELHI, Monday.

IN HER first budget presented to Parliament on Saturday, the Prime Minister and Minister for Finance, Mrs Indira Gandhi, proposed a fairly heavy dose of taxation. The new imposts, both direct and indirect, are expected to bring in an additional net revenue of Rs 170.06 crores during the next financial year. Of this, the central government will get Rs 124.76 crores. The balance Rs 45.30 crores will accrue to state governments.

The budget, however, contains some proposals in regard to personal taxation, the major proceeds from which will accrue only in 1971-72. The aggregate taxation proposed by Mrs Gandhi, therefore, works out to nearly Rs 191 crores. To this, however, must be added another crore of rupees or so on account of the proceeds likely to accrue through plugging of "loop holes" in corporate taxation; no estimate of these proceeds has been given.

Of the additional revenue next year, Rs 135.06 crores will accrue on account of excise duties, Rs 20 crores on account of customs levies and Rs 15 crores or so on account of direct taxes. In 1971-72, the proceeds from direct taxes are estimated to go up to Rs 36 crores or so.

Additional Revenue

The additional revenue from new imposts accruing to the centre is expected to raise the estimated modest surplus of Rs 14.75 crores on revenue account to as much as Rs 139.51 crores. The revenue proceeds are estimated to go up to Rs 3,291.69 crores. The expenditure is estimated at Rs 3,152.18 crores.

On capital account, however, the receipts at Rs 1,823.71 crores are estimated to fall short of Rs 2,188.46 crores disbursements by as much as Rs 364.75 crores. The overall deficit next year, therefore, is estimated at Rs 225.26 crores. This has been left uncovered.

This year's revised estimates reveal a revenue deficit of Rs 10.94 crores — revenue receipts Rs 2,965.48 crores and revenue expenditure Rs 2,976.42 crores. The overall deficit is estimated at Rs 290.11 crores. Capital receipts are estimated at Rs 1,975.51 crores and capital disbursements at Rs 2,254.68 crores.

The following are the taxation proposals:

Direct Taxes

(i) **Income-Tax**: (i) The rates of income-tax on personal incomes over Rs 40,000 have been raised as follows: Income bracket Rs 40,001 to Rs 60,000 — 60 per cent (at present the rate is 50 per cent for annual incomes between Rs 40,001 and Rs 50,000 and 60 per cent for incomes between Rs 50,001 and Rs 60,000); Rs 60,001 to Rs 80,000 — 70 per cent (as against 60 per cent on incomes between Rs 60,001 and Rs 70,000 and 70 per cent on incomes between Rs 70,001 and Rs 80,000 at present); Rs 80,001 to Rs 100,000 — 75 per cent (as against 65 per cent currently); Rs 100,001 to Rs 200,000 — 80 per cent (as against 70 per cent at present) and over Rs 200,000 — 85 per cent (at present the rate is 70 per cent for incomes between Rs 200,001 and Rs 250,000 and 75 per cent on incomes in excess of Rs 250,000). Together with the surcharge of 10 per cent of the basic income-tax, which continues to be levied, the maximum marginal rate of tax proposed is 93.5 per cent on incomes in the slab over Rs 200,000, as against 82.5 per cent (including surcharge) on incomes in the slab over Rs 250,000 at present (ii) The exemption limit up to which no income-tax is payable at present varies from Rs 4,000 to Rs 4,800 depending on the number of dependents. This arrangement by which the exemption limit is related to the number of dependents is proposed to be done away with. Instead, a uniform exemption limit of Rs 5,000 will apply in the case of all non-corporate assessees, irrespective of whether they are married or have children.

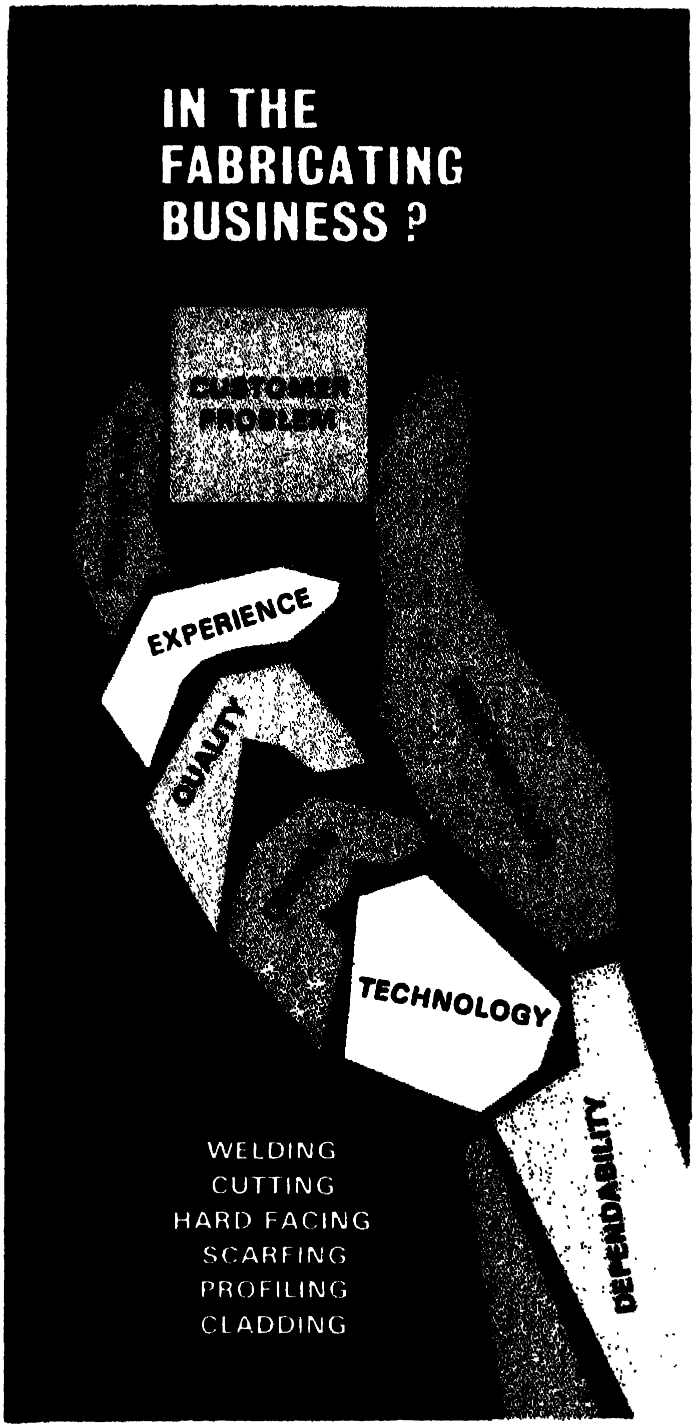
Wealth Tax: (i) The rates of ordinary wealth tax in the case of individuals and Hindu undivided families is proposed to be stepped up, on a gradual basis, from the present rates ranging from 0.5 per cent to three per cent, to rates ranging from one per cent to five per cent, the slabs of net wealth, broadly, remaining the same. (ii) At present, additional wealth tax is leviable on the value of lands and buildings situated in cities and towns with a population exceeding 100,000 and with an initial exemption ranging from four to seven lakhs of rupees. The rates vary from one per cent to four per cent. These are proposed to be stepped up to five per cent on the value of urban lands and buildings in excess of Rs 5,00,000 and to seven per cent on the value in excess of Rs 10,00,000. The coverage is also being enlarged so as to include lands and buildings situated in municipalities and other similar urban areas having a population of not less than 10,020. Power is also proposed to be taken to extend the levy, by notification, to lands and buildings situated outside such municipal and other urban limits, up to a maximum distance of eight kilometres from such limits. (iii) Capital gains arising from the sale or transfer of agricultural land situated in muncipal or similar other urban areas having a population of not less than 10,000 are proposed to be brought within the purview of income taxation.

Other Taxes

Gift Tax: The rates of gift tax will be revised from the existing rates ranging between five per cent and 50 per cent, to rates ranging between five per cent and 75 per cent. The initial exemption from gift tax will be reduced from the existing Rs 10,000 to Rs 5,000.

Other Changes: (i) At present, income up to Rs 1,000 from investment in the units of the Unit Trust of India and another Rs 1,000 from dividends on shares in Indian companies is exempt from income-tax. All such income and that from a few other financial assets, up to a limit of Rs 3,000 will now be exempted from tax in the case of all categories of tax payers. This will cover income from investments in government securities, approved debentures of co-operative societies and other institutions and authorities, the new taxable saving schemes proposed to be instituted in the place of existing ones and bank deposits, besides units of Unit Trust and dividends on shares in Indian companies. The exemption presently available in respect of the whole of the interest on a number of small savings schemes — existing and new — will continue.

(ii) At present (besides the general exemptions for purposes of wealth tax) investments in specified small savings schemes (up to Rs 1.2 lakhs in the aggregate) are also exempt from wealth tax. Instead, investments up to a maximum of Rs 1,50,000 in specified financial assets (covering these schemes as also the assets in respect of which income up to Rs 3,000 is being exempted from income-tax) will be exempted from wealth tax in the case of individuals and Hindu undivided families,



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Gold Bonds, Cumulative Time deposits accounts and public provident fund accounts will continue to be exempt.

(iii) A standard deduction of Rs 20 per month will be allowed in lieu of the cost of travel to work to all salaried assessees. Simultaneously, the existing deduction of Rs 250 per month for a motor car in the case of salaried taxpayers having a gross yearly income exceeding Rs 25,000 will be reduced to Rs 200 per month.

(iv) At present, private discretionary trusts are taxed on their income and wealth at the rates applicable to individuals. In future, such trusts would be taxed at a flat rate of 65 per cent on their income or at the appropriate rate applicable in the case of individuals, whichever is higher. Similarly, such trusts would be taxed at a flat rate of 1.5 per cent on their wealth (without the initial exemption of one lakh of rupees) or at the appropriate rate applicable in the case of individuals, whichever is higher. (This will not apply to certain categories of trusts e.g., testamentary trusts).

(v) For charitable and religious trusts, exemption from tax will, in future, be allowed only in respect of income actually applied to the purposes of the trust in the same year or within three months of the close of the year. The balance of the income will be subjected to tax at the progressive rates of tax applicable to non-corporate taxpayers. The exemption will be forfeited if the trust funds are invested in a concern in which the author of the trust or persons connected with him are substantially interested.

(vi) Entertainment expenditure incurred within the country after February 28 will be disallowed altogether in computing the profits and gains of businesses and professions. Expenditure incurred after February 28 on the maintenance of guest houses in business and professions will also be disallowed altogether in computing the profits and gains of businesses or professions.

Indirect Taxes

Export Duties: The export duty on tea is proposed to be abolished. Simultaneously, the excise duty on loose as well as package teas is to be raised with provision for *ad hoc* rebate on exports at rates varying with the price of exported tea. The duty on jute canvas, webbings, tarpaulin cloth and manufactures is being reduced from Rs 500 to Rs 200 per tonne.

Import Duties: In order to give impetus to import substitution, the duty on machinery (other than for the initial setting up of projects or for substantial expansion of existing projects) is proposed to be stepped up from 27½ per cent to 35 per cent. The duties on certain plastic material and nichrome and other electrical resistance wires are to be raised from 60 per cent to 100 per cent *ad valorem*. The duties on motor vehicle parts, pharmaceutical chemicals and non-electrical instruments and appliances are proposed to be stepped up by 10 per cent *ad valorem*. The duty on whisky, wines, etc, is also being stepped up.

Excise Duties

New Imprints: Excise duties are to be levied on several new commodities. These include: (a) Office machines like typewriters, calculating machines, computers and intercom devices — 10 per cent *ad valorem*; (b) Metal containers intended for packaging of goods for sale, including casks, drums and cans — 10 per cent *ad valorem*; (c) sparking plugs, stainless steel blades, slotted angles, iron safes and safe deposit vaults — 10 per cent *ad valorem*; (d) calcium carbide, bleaching powder and sodium hydro-sulphite—10 per cent *ad valorem*; and (e) synthetic rubber — Rs 300 per metric tonne.

Aluminium: The existing specific duties on aluminium are proposed to be replaced by *ad valorem* duties. Some rationalisation is also to be effected.

Foods: The scope of the existing 10 per cent *ad valorem* duty on prepared and preserved foods is proposed to be extended to vegetable juices, synthetic syrups, dehydrated peas, malted foods, instant tea and coffee, biscuits, pasteurised butter, processed cheese, branded aerated waters, glucose and dextrose. Aerated waters, biscuits, butter and cheese will be covered only when manufactured with the aid of power. There will also be total exemption for baby foods and branded 'deshi' ghee.

Caustic and Soda Ash: The duty of five per cent on soda ash and caustic soda will be raised to 10 per cent.

Sanitary-ware: The excise duty on sanitary-ware and glazed tiles of porcelain is to be raised from 15 per cent and 10 per cent, respectively, to 25 per cent.

Air-conditioners and Refrigerators: The duty on room air-conditioners and larger refrigerators (exceeding 165 litres) is being stepped up from 40 per cent to 53.33 per cent. The duty on parts of refrigerators, air-conditioning plants and machinery is also being raised from 53.33 per cent to 66.66 per cent. The requirements of cold storage plants, hospitals run by government and charitable trusts, and factory establishments will, however, be exempted from the increase.

Television Sets: The existing total exemption in favour of television sets is being withdrawn and a duty of 20 per cent *ad valorem* is being imposed.

Polyester Fibre: The duty on polyester fibre of two deniers or less is being raised from Rs 28 to Rs 33.33 per kg.

Art Silk: The present duty of 7.8 paise per sq. metre on artificial silk fabrics is being replaced by an *ad valorem* duty ranging from three per cent to 10 per cent, depending on the value of the fabrics. By this change, fabrics whose value does not exceed Rs 2.50 per sq. metre will get relief, but the the higher-priced ones will pay more.

Petroleum Products: The duty on motor spirit is proposed to be raised by 10 paise per litre, that on superior kerosene by two paise per litre and on furnace oil by two paise per litre. The duty on furnace oil used in coastal shipping and for electricity generation as also inferior kerosene is not being raised.

Cigarettes: The duty on cigarettes is to be enhanced with the increase ranging from three per cent to [illegible] per cent *ad valorem*, depending on the value slabs.

Tea: The excise duty on tea is being raised by amounts depending on the zones in which the tea is produced. For zones other than one and two, the increase varies from 45 paise to one rupee per kilo. On zone one teas, there will be no increase and on zone two teas there will be an increase of 10 paise per kg. only.

Sugar: At present, both levy sugar and free market sugar bear duty at 23 per cent *ad valorem*. The duty on free market sugar is proposed to be raised to 37.5 per cent and that on levy sugar to 25 per cent. In the case of khandsari, the tariff rate is being increased from 12.5 per cent to 17.5 per cent, but under the compounded levy system there will be some reduction keeping in view the current level of prices.

Posts and Telegraphs

The tariffs in respect of parcels, registration fee, value payable articles, money orders above Rs 100, supplementary fee in respect of telegraphic money orders, book, pattern and sample packets are proposed to be stepped up in order to cover the deficit in the Posts and Telegraphs budget. Phonograms, greetings telegrams and telephone calls beyond the first 750 calls in a quarter will also cost more. However, there will be no changes in tariffs of post card, inland letters, envelopes, registered

newspapers, money orders up to Rs 100, etc.

The philosophy behind the budget proposals, the Prime Minister said, was to foster growth and effect social justice

Pension

The budget proposals provide for the payment of a minimum of Rs 40 and maximum of Rs 150 per month as family pension to the widow and to the minor children surviving in the case of a worker who dies before retirement. Legislation to create a family pension-cum-life assurance scheme will be brought forward for the purpose. The scheme will be applicable to those employees who contribute eight per cent of their pay to their provident fund. A separate fund for the scheme will be created by diverting a part of the employees' share (1-1/6 per cent of pay) and an equal amount from the employers' share from their respective fund. The government will add a further share of 1⅙ per cent of pay, making up a total of 3½ per cent of pay for credit into the fund under the new scheme. In addition to the monthly pension a lump sum payment of Rs 1 000 will be made in the event of death in service.

The budget has paid particular attention to mobilising small savings particularly in the rural sector. Wide changes have been made in the post office savings and provident fund schemes. Rural debentures are to be issued. Tax concessions have also been offered to promote small savings. Interest on post office savings bank deposits has been raised to four per cent and provision has been made to block the amount of savings for two or three years. Such blocked accounts will attract a higher interest. The maturity value of five-year fixed deposits is being increased and a new scheme called post office time deposits is being introduced. Interest on cumulative time deposits is being raised and a new post office recurring deposit scheme is being introduced. The current savings certificates are being replaced by three issues of seven-year National Savings Certificates. The rate of interest on public provident fund is being raised from 4.8 per cent to five per cent compound. State-sponsored institutions may issue debentures to finance local schemes. All the above postal savings and public provident fund will be free of tax.

Taking the centre, states and union territories together, the Plan outlay for the next year has been raised to Rs 2,637 crores from Rs 2,239 crores this year.

An unprecendented situation arose at the time of the presentation of the budget this year. The Finance Bill was not duly introduced immediately after the budget speech. For this purpose, an extraordinary session of the Lok Sabha had to be convened at 10 p.m.

Patents Bill

A number of major concessions which should go some way to meet the objections of foreign collaborators to the controversial Patents Bill have been recommended by the Joint Select Committee on this bill in its interim report presented to Parliament this week. The committee has proposed that the ceiling on royalty should be fixed at five per cent instead of four per cent as proposed in the bill. It has also suggested that the existing patents should be totally exempted from the purview of the new legislation. The validity period of 10 years provided in the bill for patents on food, drugs and medicines, the committee has felt, is too long. It has recommended that this period should be reduced to seven years. The full interim report of the committee is published in the Records and Statistics section of this issue.

Drug Prices

The union Minister for Petroleum and Chemicals, Dr Triguna Sen, has rejected in the Rajya Sabha the demand for the nationalisation of the drugs industry. The natisnalisation of the industry, he observed, would not automatically bring down the prices of drugs and medicines. Dr Sen said that the costs of equipment and raw materials for the industry were high. Further, most of the manufacturing units were uneconomical; their overheads, therefore, were comparatively high. Dr Sen assured the House that the government was not complacent towards bringing down the prices of drugs and medicines. He was sanguine that he would be able to make the industry reduce its prices.

WINDOW ON THE WORLD

Industrialised Economies in 1970

JOSSLEYN HENNESSY

LONDON :

NATIONAL ECONOMIC analysis and forecasting is now universal in all industrialised countries, but all of them except, as far as I am aware, the UK, West Germany, and Italy, rely solely on a single official source, such as the Ministry of Finance, which is risky because the potential margin of error is enormous and the element of subjective judgment is large. In the UK we have two correctives to the Treasury, the National Institute of Social and Economic Research, and the London and Cambridge Economic Service, each of which produce a quarterly review. Of the two, the London and Cambridge is to be preferred because its outlook strikes me as far more independent than the NISER which is apt to take a line which differs from the Treasury in degree rather than in kind.

Italy has the Milanese Institute for Economic Studies but West Germany benefits by several independent economic research institutes. One of the two in the top rank is the *Deutsches Institut fur Wirtschaftsforschung*, which publishes a weekly report in German on the economic situation, the latest of which I summarise below.

Bird's Eye View

The western world economy shows symptoms of the final stages of a strong period of expansion. Signs of a weakening in demand are appearing even as most countries experience inflationary rises in costs and prices. Sizable increases in wages do ensure that private consumption spending will continue on its 1969 high growth level, but rising costs are limiting profits and singificantly curtailing current investment. The deceleration in GNP growth of about 1.5 percentage points in 1970 (see table p. 360) is explained chiefly by the investment development forecast. International trade will also expand less rapidly than in 1969.

The question is whether the declining propensity to invest will lead to a general slowdown later in 1970 which will exceed the forecast. A serious slowdown is avoidable only if the various countries abandon present restrictive policies. In view, however, of the continuing inflationary tendencies, no country seems willing to do so. As the final stages of an economic boom are usually marked by productivity advances beginning to decelerate faster than wage increases, stepping up wage cost per unit increases. A serious slowdown could hardly be avoided if the countries make a cooling-off of inflation a prerequisite to initiation of expansion.

The governments should, in the DIW's view therefore, switch to an expansive policy at a time when cost and price rises have not yet stopped. Since the first effect of doing this would be to accelerate productivity more than wage increases, there is no reason to expect an immediate increase in cost and price rises; the DIW thinks that a decrease would in fact be more likely. Developments in the USA will be the biggest factor in determining the extent of any international slowdown in 1970.

Whither the United States?

The many forecasts of US economic development in 1970, agree that a further weakening of economic activity is likely. Predictions vary as to the proportions of the slowdown and in the appraisal of the trend of future prices. A forecast is more than usually uncertain, because it is difficult to assess the force of the contractive and expansive elements of policy (monetary policy, fiscal policy), nor are the reactions of businessmen and consumers predictable. Apparently expectations still are that the Administration will not allow a heavy recession, but there is many a slip between reversals of policy.

The present US federal budget is lightly expansionary. Federal expenditure in fiscal year 1969-70 will reach $200,000 million — an increase of 10 per cent over 1968-69, but hardly any further upward trend will be seen from now until mid-year. The tax measures so far approved — reduction of the surcharge from 10 to 5 per cent on January 1, 1970, and discontinuation of investment tax credit retroactive to April, 1969 — mean that revenues will slightly exceed preliminary estimates. Whereas a surplus ($4,600 million) achieved in 1968-69 damped business activity, this year the budget will only be balanced. By raising social benefits, the upward adjustment of personal exemption, and the ax surcharge reduction, more purchasing power will flow to low income households. Consumption spending will thereby increase somewhat faster, also augmented by the expected slakening in savings which has, in the past few months, been high.

As long as the Federal Reserve Board adheres (as seems likely) to its restrictive monetary policy, the prospects for a recovery in dwelling construction remain slim. Issuance of construction permits continues to decline but presumably will quickly increase as soon as necessary financing is made available. State and local appropriations, which had remained largely untouched by the high interest rates, now appear to be feeling the shortage and high price of financing. Here again, a change of direction on the money and capital market could rapidly revive demand.

The most recent plans of private business imply another increase of 10 per-cent in nominal investment in 1970. Of course, only slight increases are anticipated for the second half. Total private fixed investment (including dwelling construction) in money terms will only increase in line with increases in capital goods and construction prices, i.e. stagnate in real terms.

Signs of weakening on the labour market are few. Vacancies and overtime hours have both declined, although firms are hoarding skilled workers. Sub-par productivity continues. The latest figures show output per working hour in private business declining in absolute terms. Firms are unlikely to cling to this policy much longer unless new impulses from an acceleration in demand are forthcoming. In view of this lag in labour productivity, it is not surprising that prices keep rising despite the slow-down.

Long Way to Go

The latest US current balance of payments figures look better, although the USA still has a long way to go before its balance of payments looks as good as that of the UK (!). Significantly enough, balance of payments considerations now favour loosening of monetary policy if the inflation cools off. This would help the USA's trading partners whose central banks are impeded by the unusually high US interest rates.

In the United Kingdom the economic sun is shining. The British balance of payments has since the war seldom equaled the surplus achieved in 1969. Some of the improvement is in fact due to revised methods of compiling the foreign trade statistics. The splendid splurge in exports cannot be exclusively ascribed to the tight restriction policy — aimed at checking imports and releasing

capacities for exports. The DIW believes that the UK's ability to secure a greater share in the expansion of international trade than in previous booms is above all the result of the noticeable improvement in UK competitiveness following devaluation in late 1967, the effect of which was achieved after a time-lag of over a year.

Contrary to expectations, devaluation had no visible effect in 1968, because domestic demand had not been sufficiently plugged up. As, however, restrictions were tightened in reaction to the continuing balance-of-payments deficit, an export boom emerged in 1969, which of course fed on the lively economic activity abroad but nonetheless would have been unlikely without the improved competitiveness due to devaluation.

The DIW encourages one to believe that the intensity of the export boom justifies the hope that, at last, long-term healthy growth, free of persistent foreign trade difficulties, has become possible. The DIW thinks that the "English disease" (whereby, for the sake of the balance-of-payments, growth, and thereby productivity, are damped, in turn weakening competitiveness) has been overcome.

Not Out of the Red

Even so the DIW agrees with the diagnosis of the UK's position that I gave here on February 13, namely, that the UK is not yet entirely insured against relapse. A significant weakening of the world economic expansion in the second half of 1970 could damp UK export growth and jeopardise export orientated growth. Another danger is more immediate. Employees are putting in high wage demands, because in their view they have had to bear the brunt of past credit restrictions. The point of view is arguable but what is certain is that to concede the current demands would impose costs that would again undermine competitiveness. Offering a blinding glimpse of the obvious, the DIW says that this danger can be averted only if the government can convince unions that a steady rise in prosperity for wage earners is impossible unless they abandon excessive wage demands which would spoil chances for long-term smooth growth.

Going into 1970, France is at a decisive stage in economic development. The government has apparently succeeded in damping prices and demand. Although backlogs of orders in maufacturing remain large, production capacities are still highly utilised, the labour market continues to be strained, and the measures adopted after devalua-

DEVELOPMENT OF GNP AND ITS COMPONENTS

Growth rates in per cent*

Country	GNP				Allocation sectors (in real terms)									
	nominal		real		Private consumption		Public consumption		Gross fixed investment		Export		Import	
	1969	1970	1969	1970	1969	1970	1969	1970	1969	1970	1969	1970	1969	1970
Federal Republic of Germany	12·0	9·0	8·5	4·5	7·5	6·0	5·5	4·5	14·5	7·5	12·5	6·5	16·5	10·0
France	15·0	8·5	8·0	4·0	7·5	3·5	4·5	2·0	10·0	5·5	17·0	12·0	20·0	4·0
Italy	9·5	11·0	6·0	6·5	6·0	8·0	4·0	5·0	12·0	10·5	16·5	12·0	23·0	22·0
Netherlands	12·0	8·5	4·5	4·0	3·0	4·5	4·0	3·5	1·5	3·0	14·5	9·5	13·5	9·0
Belgium	9·5	9·5	5·5	5·0	5·0	4·5	5·0	5·0	9·5	8·5	16·5	9·5	16·5	9·5
EEC	12 4	9·2	7·4	4·7	6·8	5·4	4·8	3·8	11·2	7·0	14·8	9·3	17·9	10·4
EEC, excl. Fed. Germany	12 6	9·3	6·8	4·8	6·4	5·1	4·3	3·4	9·5	6·7	16·2	11·0	18·6	10·5
United Kingdom	6·0	7·0	2·0	3·5	±0	2·5	±0	1·0	0·5	4·5	11·0	7·5	2·0	3·0
Sweden	7·5	7·0	4·5	4·0	4·0	3·0	5·0	4·5	3·5	4·5	10·0	4·0	11·5	6·0
Switzerland	8·0	8·0	4·5	4·0	4·0	5·0	4·5	4·5	7·0	8·0	11·5	9·0	12·0	13·0
Denmark	10·5	8·0	7·0	4·0	5·0	4·0	7·0	3·5	8·0	6·0	12·0	7·0	10·0	5·0
Austria	9·0	8·5	6·0	5·0	3·0	5·0	3·5	3·0	7·0	8·5	15·0	11·5	9·5	10·5
Norway	8·5	8·5	4 5	4·5	6·0	4·0	4·5	2·5	—2·0	12·0	6·0	0·5	2·5	6·5
EFTA	7·1	7·3	3·4	3·8	1·7	3·1	2·1	2·2	2·6	5·9	10·9	6·9	5·8	5·7
European industr. countries	10 7	8·6	6·1	4 4	5·1	4·7	3·8	3·2	8·6	6·7	13·5	8·5	13·5	8·6
European industr. countries excl. Fed. Germany	10·2	8 5	5·4	4·4	4·4	4·3	3·2	2·8	6·7	6·4	13·8	9·1	12·6	8·3
USA	8·0	5·5	3·0	1·5	3·0	3·0	1·0	1·0	5·5	±0	5·0	5·0	6·5	3·0
Canada	9·0	7·5	4·5	3·5	4·5	3·5	3·5	2·5	6·0	5·5	7·5	5·5	9·5	7·5
Japan	18·0	16·5	12·5	11·0	9·5	10·5	7·0	5·5	19·0	16·0	18·0	12·5	17·0	14·5
Non-European industr. countries	9·4	7·1	4 3	2·9	3·8	3·9	1·8	1·6	8·4	3·8	7·9	6 5	9·0	6·0
Total	9·8	7·6	5·0	3·4	4·3	4·1	2·3	2·0	8·5	5·1	11·3	7·7	11·7	7·6
Total excl. Fed. Germany	9·6	7·5	4·6	3·3	4·0	4·0	2·1	1·8	7·8	4·8	11·1	7·9	11·0	7·2

*Quantities for separate countries to nearest 0·5 per cent; averages determined by means of 1968 (dollar-based) weights in the respective sectors.

Sources: Estimates of foreign official and private institutions and Deutsches institut für Wirtschaftsforschung.

tion are beginning to bear fruit.

The government has attained one objective in reducing the budget deficit to nearly F. 4,000 million in 1969. A result primarily of the extensive saving promotion measures, private savings in the second half of 1969 also rose more than in the previous years (by F. 9,300 million). Correspondingly, growth of private and public demand weakened significantly in the past few months. The deceleration of demand expansion (backed by controls) led to a decrease in price rises, from 6.4 per cent in the first half of 1969 to 5.2 per cent for the second half, and only 3.6 per cent in December The government was therefore able to keep inflation within the range of the projected rates for 1970 (first half: 4.4 cent; second half: 3.4 per cent). The trend of wages is now all-important in France as it is in the UK. Assuming that a rise in productivity of 4 per cent has been made possible for 1970 by the increased investment (10 per cent) in 1969, the average wage increase in 1970 cannot exceed last year's 8 per cent without endangering the economy.

Lead in competitiveness

The "lead" in competitiveness which France gained from devaluation in 1969 will remain largely intact through 1970. Along with the elimination of the budget deficit in 1970 and the continued curtailment of expension in domestic demand, a balance of payments surplus could be attained before mid-year, especially since, in the first half of 1970, the economic development of France's main customers is not likely to weaken.

In the past few months, the ratio of exports to imports has steadily improved. If labour relations are peaceful and if demand expansion is dampened, thus freeing production capacities, an increase in exports of 12 per cent nominal (1969: 17 per cent), with a simultaneous increase in imports of only 4 per cent (1969: 20 per cent) would be possible. Whereas relaxation of general credit restrictions cannot be expected before mid-year, easing of credit to exporters seems possible.

Overall, a significant weakening of economic growth is expected for 1970: the growth rate of France's (real) GNP should be 4 per cent.

As late as mid November 1969, the Italian Ministry of Labour reported gloomily that the 1969 strikes had caused the rate of growth to fall from 6.8 to 4.5 per cent. Subsequent calculations suggest that the losses were not so severe; the Milanese Institute for Economic Studies claims that despite the production losses in the past autumn, growth in the whole year was down only one point. Other sources confirm this optimistic evaluation.

What are the carry-overs from the events of the "hot autumn" which will affect development in 1970?

At the beginning of the strike offensive, capacities were fully utilised and the growth rate was 7 per cent. In 1969, gross fixed investment rose 12 per cent; from the standpoint of supply, the upper limit for economic growth therefore seems 7 per cent. Presumably, production losses could not be fully made up. Instead, additional increases have been made in imports and lengthened delivery dates have ensured full utilisation of capacities for at least six months.

Private consumption, which in 1969 increased at slightly above average, will be accelerated through the large wage increases (about 15 per cent); expectations of another jump in prices would also damp the propensity to save. Public consumption will be somewhat accelerated by the rises in public servants' pay. Inventory investment will again increase considerably in 1970 after stocks had fallen to an extreme low, especially after the strike months.

The considerable increases in wage costs will not nearly be offset by increased productivity, so that either Italian prices will climb more rapidly than abroad and, in the course of 1970, begin to damp exports and stimulate imports, or, if the government and central banks intensify present restrictions, business will have to absorb a big fall in profits, with prices climbing not as rapidly, and cut back investment plans. As long as the Italian political situation remains uncertain, the outflow of capital will probably continue and the financing of domestic projects become increasingly difficult. This is at a time when it is necessary to regain lost ground in new capacities. Against a background of rapidly expanding domestic demand, this necessity will induce growth industries to borrow more, even under unfavourable conditions.

Despite the political and psychological imponderables, orders seem sufficient to hold growth to the path indicated by supply potential, at least through the first three quarters of 1970. Damping influences will become more important towards the end of the year. Overall, real growth of the GNP should amount to about 6.5 per cent.

Next week, I will report on prospects for 1970 in the all-important West German economy, which ranks with the USA and Japan as one of the world's three most influential factors in world economic expansion.

Rift in the GATT Lute

E. B. BROOK

VIENNA :

THE CONFLICT in international trade illustrated by the current meeting of the 76 members of the General Agreement of Tariffs and Trade in Geneva is the outcome of the difference between the idealist aims of international politics after the exhaustion of a conflict and the self-interested strivings of national politics in years of security.

When GATT was formed, the commercially stronger countries were feeling their way round in a slowly healing world. They sought reassurance in drawing up rules of international commercial conduct based on the most unexceptional principles of disinterest. Years later, recovering but still capable of liberal policy, they agreed to the Kennedy Round of talks on all-round tariff cuts.

West Europe has now not only recovered from its economic debility, but has organized itself into exclusive, regimented and highly protectionist blocs with no scruples about raising prices artificially to keep unhealthy areas of the economy going. They wastefully store and misuse their excessive and unwanted products, dump them in new markets and so control their tariff and purchase policies as to disrupt the established order of trade and hold much non-member enterprise at bay.

Anything more contrary to GATT principles it is difficult to imagine but the Common Market is not the only GATT sinner now in Geneva; GATT is concerned also by US proposals of new protectionist measures for some of its manufactures, by Japanese import restrictions and by the continuation of the British import deposit scheme.

It is clear from complaints voiced recently which are the areas in which these GATT members have developed policies that hurt one another most. The main contenders are the Common Market and the United States; the latter has recently accused the Market of adopting protectionist and dumping policies that run the risk of "fatally undermining the GATT system". The USA repre-

sentative to the European Economic Community complained recently that because of prohibitive Common Market Tariffs American agricultural exports to Europe had fallen off by 12 per cent in two years and that the Market had begun dumping agricultural goods in some of the US traditional markets. The United States also dislikes the growing number of the Market's preferential trade agreements which have been concluded with at least six non-member countries in the Mediterranean area. The US hints that, in retaliation, it may conclude some bilateral agreements of its own.

The USA is nervous of finding itself progressively excluded from markets in West Europe, the Mediterranean area and Africa. Since, because of its own politics, the USA scarcely trades at all with east Europe or China, this exclusion, if it becomes effective to a sizable degree, would mean that the USA is selling less to about a third of the world. The USA is also concerned at the current west European drive to increase trade with east Europe.

Threat to World Trade

These conflicts between GATT members and the creation of increasingly self-protective and exclusive trading blocs with hangers-on under preferential agreements threatens the entire world trading framework painfully constructed by GATT over the past 25 years and further menaces the trade liberalization concept under which GATT's Kennedy Round negotiations were conducted.

These Kennedy Round tariff reductions will be complete by the end of 1971 and the GATT secretariat is striving to keep the idea of liberalized world trading alive by pressing a proposal for a new round of talks on liberalizing trade. There seems to be little enthusiasm for the idea but GATT has been working hard to produce a list of existing non-tariff barriers to trade and has discovered some 800 of them. The problems are lack of members' enthusiasm, uncertainty about their negotiating authority on non-tariff barriers, whether a new code of GATT conduct is necessary and whether—if negotiations take place—non-tariff barriers should be bargained against one another as were the tariffs.

The barriers take diverse forms, including regulations, government participation in trade, packaging and health standards and customs formalities. As usual, the preparatory technical work by GATT will be precise, everything will depend on the political goodwill of the GATT members. GATT proposes the interim test of a standstill on these non-tariff barriers but the necessary political goodwill seems at this time not a little remote.

Meanwhile, mergers in the Common Market area with large corporations within and without the Market are frequent and are rousing the Market to plan an industrial environment within itself to promote inter-Market mergers, to create more companies with a world-wide trading outlook and provide a balance more satisfactory to the Market between itself and the USA.

A plan is to be discussed by the Market's Commission in March in readiness for the Council of Ministers in the last week of the month. It will seek to promote inter-Market mergers by ending anomolies in Market countries in their laws affecting corporations, corporate merger regulations, corporate taxes, incentives considered necessary for industry and foreign investment procedures.

The success of US companies in the Market area has stimulated investigations into how European Market concerns can be made more competitive. A possible line of approach will be to try to diminish US companies' activities through restrictions or by taking governmental action aimed at helping European companies. The purpose would be not to destroy competition but governments will be required to stimulate industry by co-ordinating and rationalizing their monetary, fiscal and economic policies.

The recent takeover of Belgium's largest electronic industry, Ateliers de Constructions Electriques de Charleroi by Westinghouse Electric Corporation with a 67.8 per cent share of its equity has undoubtedly helped spur the Market to plan these measures, more particularly since Westinghouse was refused permission only late last year by the French government to take over France's Jeumont-Schreider concern. The Belgian company had been considering alliance with a big international concern for four years since it had reached the limit of indebtedness : the Market seems to have been a trifle slow in adapting to this situation but now realizes belatedly that many of its bigger industrial companies need more financial facilities and fewer restrictions than the small governments of west Europe usually treat them to. A far broader Market fiscal and financial base is essential if the safety and progressive prospects offered by merger with a huge US or other international corporation is not to prove a refuge for some more of west Europe's worthwhile but often lagging companies. Shareholders, some of whom received no dividend for several years, would certainly not object.

The moving finger writes

NOW THAT Mrs Indira Gandhi has realised one of the ambitions of her political career and presented a central budget, she can have no objection to relinquishing the Finance portfolio after the Finance Bill has been duly enacted. It is not right that the Prime Minister of the country should carry, as an additional charge, the heavy responsibility of Finance. The administration of the Finance Ministry is bound to suffer if this unwholesome arrangement were to continue. Worse still, the Finance portfolio will become irretrievably mortgaged to Mrs Gandhi's particular brand of power politics. It has been reported that, when the cabinet met to be informed of the budget proposals earlier on the day of the presentation of the budget to Parliament, few questions were asked and even fewer doubts were expressed. No wonder. Mrs Gandhi's colleagues know only too well what their jobs are worth.

* *

People living in glass houses would be ill-advised to take up stone-throwing as hobby. Some of our more adventurous politicians seem to be lacking in this elementary prudence Following the judgment of the Supreme Court, which invalidated the Act of 1969 nationalising 14 commercial banks, these demagogues set up a clamour that the judiciary was proving a stumbling block on the nation's road to social justice. Some of them, who ought to have known better, even demanded that the Supreme Court should fall in line with leftist political ideologies or face the risk of being dragooned to serve the purposes of certain political parties. Little did they realise how vulnerable they themselves were. To them, therefore, the home truths which the Chief Justice of the Supreme Court uttered the other day probably came as a rude shock.

Mr Hidayatullah, naturally, was not attempting to indulge in any slanging match with the politicians. His concern was with the deterioration in the standards of political conduct which was eating into the democratic fabric of the nation. The Chief Justice pointed to the disturbing fluidity of party affiliations and loyalties and the even more objectionable disloyalty to principles which have virtually become the norms of current behaviour in public life and even on the floors of legislatures. It seems to me that before this particular tribe or tribes of politicians could presume to talk about recasting the Constitution or reshaping the Supreme Court, they would do well to reform themselves, or else, a long-suffering nation may well lose its faith in representative government and be tempted, in its frustration and resentment, to throw the baby with the bath water.

* *

It is not to be expected, of course, that the political resurrection of Mr Gulzari Lal Nanda would qualify as a great event. Even so, considering that Mr Nanda himself is inclined to take Mr Nanda seriously, it is hard on him that the general reaction to his appointment as Railway Minister has been one of amused levity. R. K. Laxman, in *The Times of India* caught this mood in a superb cartoon which pictured Mr Nanda conferring with Railway officials and directing them to produce immediately a bigger and a better cow-catcher.

Members of Parliament were not less sarcastic when Mr Nanda rose to present the Railway budget in the Lok Sabha. Mr N. G. Ranga could not resist the temptation to compare (or contrast) Mr Nanda's ready acceptance of the Railway portfolio with the desire for grandeur he had been entertaining in the past as a result of his being placed twice in the position of acting Prime Minister through the play of jesting circumstances. The Swatantra leader, thinking aloud, wondered how Mr Nanda, who had been inducted into the cabinet only a few days before the Railway budget was being presented, could have at all agreed to accept the responsibility for presenting to Parliament a document with the policies and proposals of which he could have had but little to do.

This, however, was not the end of Mr Nanda's troubles on that occasion, for quite a few Members of Parliament seemed determined to drown his voice as he started reading his speech. The fact that he had to struggle through interruptions and interjections only served to aggravate his inbred inelegance as a parliamentary performer. Nor was the situation improved by the nature of the Railway budget which imposed on Mr Nanda the unpleasant task of announcing a highly unpopular increase in third class fares or travel by suburban trains. Mr George Fernandes, naturally, had a field day and was exercising his vocal cords to the limit of their capacity for creating noise.

Even so, Mr Nanda's misfortune as Railway Minister was only beginning. Even as he finished delivering his budget speech, it became evident that he would not be able to get his proposals through Parliament. It was not so much a question of the merits of his proposals. The issue, obviously, was whether the government could afford to stick to its resolution to make the travelling public at large, as distinct from the affluent section, contribute its share to meeting the losses arising in Railway operations. This issue was settled soon enough as Mr Nanda began to simper and soften at the very first onslaught by Members of Parliament who were opposed to the increase in third class fares. Since this initial adverse reaction, a steady barrage has been kept up by the various political parties. At the time of writing, the indications are that Mr Nanda may have to agree to withdraw at least proposals relating to third class and suburban fares. He may perhaps have to surrender at least Rs 11 crores out of the estimated Rs 39 crores of additional revenue proposed to be raised through the increase in freight rates and passenger fares.

The position taken by the Government of India that the diplomatic missions in our country should close all their offices located in cities or towns other than those in which the missions or their consulates or trade offices are located will in effect be hitting principally the five United States Information Service (USIS) centres which are located in Lucknow, Patna, Bangalore, Hyderabad and Trivandrum. It is equally evident that this action is linked to the government's inability to approve of the Embassy of the USSR going on with its project for a cultural centre at Trivandrum. To put it bluntly, Mrs Gandhi's administration is asking the US embassy to close the five USIS centres so that she may be able to plead with the Government of the Soviet Union that the USSR is not being discriminated against. This is not a situation which we, as citizens of a free country, can accept without hurt to our proper pride or self-respect.

As *The Hindustan Times* pointed out in a well argued editorial, the five USIS libraries now threatened came into being before a regulation of 1954, under which the Government of India seems now to be acting. It follows that, unless there are reasonable grounds for the Government of India to exercise its sovereign right to overlook this chronological factor, its action in asking for the closing down of the five USIS libraries is bound to be regarded as having been motivated by extraneous considerations.

It was perhaps with a view to meeting this point that the Minister for External Affairs, Mr Dinesh Singh, thought it fit to state in Parliament that the Government had information that certain information centres of foreign missions had been indulging in "undesirable and political activities". Mr Singh's apologia, however, only makes matters worse since his charge against foreign missions is bound to be linked to the government's move against the five USIS libraries. The Minister for External Affairs has assumed a very grave responsibility indeed since his observations and accusations are bound to impinge on our country's diplomatic relations with the United States. Already the US Ambassador in India, Mr Kenneth B. Keating, has asked politely but firmly to be shown any evidence that the Government of India may have for impugning the conduct of the US cultural centres so that he may inquire whether and to what extent these centres have departed from the straight and narrow path of functioning completely in the open.

* *

If only because India is rightly regarded as one nation from Kashmir to Kanyakumari, I welcome the efforts of the Akali party in Punjab and the DMK in Tamil Nadu to engage in a friendly handshake across the length of our land. In any case I fail to see why so many eyebrows should have been raised mainly because Mr Gurnam Singh is carrying on a political flirtation with Mr Karunanidhi or *vice versa*. The fear that this may be the beginning of a political trend which could strengthen the divisive forces in the country seems to be exaggerated. It is possible, no doubt, that the extremist elements in the Akali camp may want that party to join forces with the DMK in opposing Hindi as the official language, but even in such likely areas of common adventure, local political circumstances or compulsions are bound to prevail over the attractions of ambitious inter-regional diplomacy. Would the Akalis, for instance, not hesitate to antagonise the Jana Sangh in Punjab?

It seems to me that the nation would gain more than it may lose should regional parties, which have no prospects of spreading beyond the limits of their respective states or regions, come together for forging federal links. This process could perform the valuable function of rescuing sub-national parties from the claustrophobia of parochial politics. Moreover, in the present political context, understandings between regional parties may have the advantage of strengthening the bargaining position of such parties with the wheeler-dealer government now functioning at the centre. Finally, I would make the suggestion, purely in the lighter vein, that it should add to the gaiety of our nation were more and more Sikhs to start pronouncing the names of Mr Anbazhagan, Mr Madhiazhagan, Mr Nedunchezhiyan and other leading lights of the DMK.

V.B.

Trade Winds

STATE BUDGETS

The **Tamil Nadu** budget for 1970-71 has estimated a revenue deficit of Rs 8·94 crores of which Rs 6 crores is to be covered by additional imposts. The Finance Minister, Mr K. A. Mathiazhagan, said while presenting the budget that the government would raise Rs 23 crores by way of open market loans in the ensuing year. The budget reveals an uncovered deficit of Rs 2·94 crores. The deficit will turn out to be substantial if certain assumptions in framing the budget are belied. For instance, in proposing a stepped-up Plan outlay credit has been taken for central Plan assistance of the order of Rs 45 crores as against Rs 36·6 crores offered by the centre and no specific provision has been made in the budget to meet a commitment of Rs 6 crores arising from a concession to state government employees. The state government proposes to urge the centre to release *ad hoc* assistance to meet this burden. The budget estimates revenue receipts at Rs 288·40 crores and revenue expenditure at Rs 296·98 crores leaving a deficit of Rs 8·94 crores. The revised estimates for 1969-70 disclose revenue receipts of Rs 282·92 crores and revenue expenditure of Rs 299·56 crores showing a deficit of Rs 16·64 crores against Rs 16·71 crores envisaged in last year's budget.

In looking for additional tax revenue, the Finance Minister confined himself to traditional fields. Out of Rs 6 crores as additional revenue, Rs 2·3 crores is to come from adjustments in the rates of sales tax on single-point commodities. Increase in the rate of tax on items listed as luxury goods from 12 per cent to 15 per cent is expected to yield Rs 1·3 crores, and an increase from 6 per cent to 8 in the case of cement and from 7 per cent to 9 per cent in the case of electrical goods, precious stones, foamed rubber sheets, scents and perfumes, tractors and bulldozers is estimated to bring in Rs 1 crore. A new impost in the form of a 7½ per cent surcharge on sales tax on assessees whose annual turnover exceeds Rs 5 lakhs is expected to yield Rs 1·1 crores. The levy is also applicable to dealers, covered by the Tamil Nadu Sales of Motor Spirits Taxation Act, but the dealers will not be allowed to collect the surcharge from the consumers. Additional revenue to the tune of Rs 1·6 crores is expected to be realised from adjustments in the rate of motor vehicles tax. The rate of tax on petrol, aviation fuel and other motor spirits excluding diesel oil has been put up by 2 paise per litre to bring in a revenue of Rs 0·5 crore. A hundred per cent increase in show tax on cinema theatres is estimated to yield another Rs 0·5 crores.

The **Mysore State** budget for 1970-71 reveals revenue deficit of Rs 15·48 crores and overall deficit of Rs 11·16 crores. Mr Ramakrishna Hegde, the Finance Minister has proposed a few taxation measures based on the recommendations of the Bhoothalingam Committee which would yield an additional revenue of about Rs 5 crores. The revenue for 1970-71 at the existing level of taxation is estimated at Rs 233·47 crores and the expenditure on revenue account at Rs 248·95 crores leaving a revenue deficit of Rs 15·48 crores. The revised estimates for 1969-70 place the revenues at Rs 216·47 crores against Rs 213·26 crores in the budget estimates. The revenue expenditure for 1969-70 is placed at Rs 222·71 crores showing a reduction in the revenue deficit to Rs 6·24 crores. If capital transactions are also taken into consideration, the overall deficit for 1969-70 gets reduced from Rs 31·59 crores to Rs 22·58 crores. The budget estimates for 1970-71 reveal improvements in revenue from sales tax (Rs 3·7 crores), lottery scheme (Rs 3·57 crores), share of income-tax (Rs 2·4 crores). The expenditure on revenue account next year reflects an increase of Rs 26·24 crores mainly due to the upward revision of pay-scales of government servants (Rs 9 crores), Rs 2·13-crore increase in interest charges and Rs 2·2-crore increase under the lottery scheme. The budget estimates place capital outlay at Rs 42·43 crores, the bulk of which, namely Rs 19·32 crores, is allocated to irrigation. In the capital budget, credit is taken for a market borrowing of Rs 15 crores which includes repayment of Rs 5·63 crores under the 4½ per cent Mysore State Development loan due for repayment. After providing for all the transactions the budget shows a deficit of Rs 8·20 crores.

The **Kerala** budget for 1970-71 contains a heavy dose of taxation which will net an additional revenue of Rs 190 lakhs. Despite new taxes and other revenue-augmenting measures proposed in the budget there will be a heavy deficit of Rs 23 crores. Finance Minister, Mr N. K. Seshan, who presented the budget, announced an increase in destitute and service pensions which would cost the state exchequer Rs 50 lakhs more a year. He also proposed increase in the minimum rate of contribution to the General Provident Fund of government employees from the present 6 per cent to 8 per cent from April 1, 1970. This higher minimum would be made applicable to the aided-school employees provident fund also. A net receipt of Rs 70 lakhs is estimated in a year by this measure.

A deficit of Rs 12·50 crores, which was left uncovered, was shown in **Haryana's** budget estimates for 1970-71, presented to the State Vidhan Sabha on February 24, by the Finance Minister, Mrs Om Prabha Jain. The deficit, Mrs Jain told the House, would further increase and would be in the neighbourhood of Rs 14·50 crores. This would include approximately Rs 2 crores on additional outlays other than printed in the budget, on some selected programmes to provide further benefits to the people.

The total receipts on revenue and capital account were placed at Rs 160·84 crores and the expenditure estimated at Rs 173·34 crores, leaving a deficit of Rs 12·50 crores. This deficit included a deficit of Rs 5·89 crores carried over from the current year. No fresh taxation was suggested and, instead, certain relief measures such as reduction in tax rate on oils from three to one per cent was announced. Revenue receipts in revised estimates, she said, had gone up to Rs 85·90 crores against budget estimates of Rs 78·34 crores. Mrs Jain said improvement in receipts was mainly on account of measures taken during the year for additional mobilisation, greater and better realisation of state taxes, greater share in central taxes as a result of the Fifth Finance Commission's award and a larger income from state lotteries.

SUGAR MILLS' TAKEOVER

The Indian Sugar Mills Association has expressed concern at the UP and Bihar governments' decision to take over sugar mills in their respective states. ISMA president, Mr V.H. Dalmia, stated recently that nationalisation would only retard the sugar industry's [illegible] Mr Dalmia, wanted a high-level committee to study the working of the sugar industry in the context of the demand for nationalisation. The committee should assess the financial, administrative and managerial problems involved as also the organisational structure necessary to implement the committee's recommendations. It was surprising that the two state governments should have come to a decision in the matter when the President of India had indicated in his address to Parliament that the centre would appoint a committee to go into the question, Mr Dalmia said. He welcomed the UP government's recommendation to the centre to raise the statutory minimum price of sugarcane. For maintaining a favourable trend for increased production in sugar and sugarcane, it was essential to assure the canegrowers of a remunerative price, Mr Dalmia added.

TARIFF VALUE OF FREE MARKET SUGAR

The Government of India has revised the tariff value of free market sugar from Rs 145 to Rs 150 per quintal for the purpose of assessment of central excise duty. The revised tariff value became operative from February 23, 1970.

U.P. LAND REVENUE

Drastically modifying the C.B. Gupta ministry's measure, the new U P cabinet recently decided to exempt land holdings of up to 3·125 acres only from land revenue. The former government had exempted land holdings of up to 6·25 acres from land revenue through an ordinance. The new decision would come into force from July next. While announcing the new decision, Chief Minister Mr Charan Singh, said that the benefit of exemption of 3·125 acres from revenue would be available to all holdings of up to 12·5 acres. But after the cabinet meeting, he told newsmen the question of 12·5 acres was being reconsidered and studied in all its implications and a decision would be taken later. The decision exempting 3·125 acres from land revenue would cost the state exchequer a loss of seven crores of rupees per year as against Rs 11 crores entailed by Mr Gupta's ordinance. It would benefit roughly half the land-holders in the state.

TAX SYSTEM

The Economic and Scientific Research Foundation has called for a thorough probe into the tax system in our country, especially the scope for structural reform in the tax structure. After a study of wealth taxation, the Foundation's fiscal consultant, Dr M. H. Gopal, has suggested that the total tax burden of the personal income and wealth taxes together should not exceed 90 per cent of the total income. In coming to this conclusion, Dr Gopal has noted that a heavy tax burden demoralises the wealthy entrepreneurs who in a developing mixed economy form the dynamic side of the private sector. When the weight of income and wealth taxes exceeds the total income, it encourages avoidance. To Dr Gopal such a levy appears unwise from any angle but of ideology. Such a tax burden leaves little scope and less incentive for larger saving and investment in the top income brackets. Also it discourages innovation and risky investments so necessary for economic growth. Because of the absence of a planned tax policy, Dr Gopal says there has been a muddling through with the wealth tax. Also, there does not appear to be much logic or necessity behind the rate and slab changes. In terms of tax burden, the present urban wealth tax has three basic features making it discriminative—the distinction between urban and rural, and between movable and immovable wealth, and among the cities themselves according to size. The differing slab structure makes


Commodity Tax Concessions
Financial Aid
Developed Plots on Meagre Rents
Cash Incentives
Assured Power/water Supply
Foreign Exchange
Banking & Storage Facilities
Replenishment Licences
Simplified Procedures
Advance Import Licence
Special Investment Facilities For Non-residents
A SHREWD MANUFACTURER !
He is indeed!
Look at the exclusive benefits he enjoys in his factory at Kandla Free Trade Zone.
No wonder he has cut down his production costs and now sells more goods abroad at competitive price.
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THE ADMINISTRATOR
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GANDHIDHAM (KUTCH) GUJARAT

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the urban tax regressive both in the scheduled rates and the effective rates within each wealth category and more pronouncedly as between the different categories. "It is doubtful if wealth taxes—general and urban—have achieved either their revenue or their social objectives" says Dr M. H. Gopal.

HM AUTO PARTS

Vauxhall Motors of UK, a subsidiary of General Motors Corporation, USA, the world's largest automobile manufacturers, have chosen Hindustan Motors Ltd, Calcutta, as their source of supply for automobile parts to be used as original fitment for Bedford trucks produced by them. Earlier, Opel of West Germany, another GM subsidiary, had selected Hindustan Motors as supplier of automotive components. Supplies to Vauxhall include such major items as front axles, cylinder blocks and cylinder heads. The first consignment of iron axles, weighing 29 tonnes, was recently air-lifted by Vauxhall in a chartered plane from Calcutta airport.

NGEF AND EXPORTS

NGEF has recently entered into a contract for export of electric motors worth about Rs 1 crore, to West Germany and neighbouring countries. This is the largest single export contract signed by any company so far for electric motors.

NGEF is actively participating in the national effort to increase exports of non-traditional items in spite of the fact that it commenced commercial production recently namely towards the end of 1965 The export efforts commenced in 1967 after the products proved their worth in the indigenous market. Even in the first year of export efforts namely 1968-69 the company exported transformers, motors and switchgear worth over Rs 20 lakhs to various countries such as the Philippines, Thailand, Ceylon, Egypt, Burma and Indonesia.

Export of non-traditional items is difficult and this is more so in respect of sophisticated equipment like transformers, motors and switchgear. It may be mentioned that the entire exports of the country for these products viz. transformers, motors and switchgear amounted to only about Rs 18 lakhs in the year 1967-68 and about Rs 80 lakhs in the year 1968-69. The remarkable target of Rs 20 lakhs exports achieved by NGEF in 1968-69 the very first year of its performance is to be gauged and appreciated in the context of these facts. In recognition of this outstanding performance the Mysore State Export Advisory Council has awarded to NGEF a silver medal. The exports in 1969-70 will be substantially higher than that of 1968-69.

The company's turnover during the past few years was :

1965—66	Rs 17 lakhs.
1966—67	Rs 138 lakhs.
1967—68	Rs 307 lakhs.
1968—69	Rs 504 lakhs.
1969—70	Rs 580 lakhs (planned)
1970—71	Rs 1160 lakhs (planned)

It is noteworthy that NGEF has increased its turnover substantially during the last few years in spite of the prevailing recession in engineer ing industries and at the same time achieved remarkable success in exports.

NGEF was originally started and run as a departmental factory of the Government of Mysore and was converted into a public limited company from October, 1, 1963 to enable more flexible operation.

NGEF has collaboration agreement with M/s. AEG-Telefunken of West Germany now participating up to 15 per cent in the equity share capital.

SARKAR COMMISSION

The Government of India appointed on February 18, a one-man commission with Mr A.K. Sarkar, former Chief Justice of the Supreme Court, to go into the irregularities in obtaining and utilising industrial licences by the 73 large industrial houses referred to by the Industrial Licensing Policy Inquiry Committee. The commission has also been asked to go into the financial assistance received by the 73 large industrial houses from the public financial institutions such as the IFC, ICICI, IDBI, the LIC, the Unit Trust and the State Bank of India. The commission is to report on whether any undue favour was shown or undue influence exercised in the grant of such assistance and the terms obtained. The commission has also been asked to fix the responsibility on the persons in any such irregularities.

LEIPZIG FAIR

Sixty-five countries and over 10,000 exhibitors are participating in the Leipzig Spring Fair which opened on March 1, 1970. With the growing participation of Indian businessmen in the Fair, trade between the two countries had grown from Rs 3·4 crores in 1955 to Rs 50 crores in 1969, with prospects of reaching Rs 60-70 crores in 1970. India's exhibits from over 200 firms both from the public and private sectors, are displayed on an area of 546 sq. metres. Several export promotion councils and commodity boards are participating. In addition, 29 leading firms have their individual stands in seven specialised commodity trade groups and three technical pavilions on a total floor area of about 485 sq. metres. Among the non-traditional articles to be exhibited are sewing machines, electric fans, batteries, cutting machines and files, petrol pumps, compressors and foundry products such as castings and pipes

S.T.C.

The State Trading Corporation of India Ltd. has shown a marked improvement in its working during the first nine months of the current financial year. Sales at Rs 161 crores compare favourably with Rs 167 crores in 1968-69. Profit before tax at Rs 12·19 crores exceeds the last year's total profit of Rs 12·09 crores, while overheads at Rs 1·74 crores are just at the three-quarters level of last year's total figure of Rs 2·29 crores. Its exports during the nine-month period at Rs 40 crores lag behind the total of Rs 48 crores last year, though it expects to recover the lost ground during the last quarter. Exports in January this year amounted to Rs 5·86 crores.

Mr Prakash Tandon, Chairman of STC, stated recently that implementation of export orders had been rather slow and that STC had to try hard to quicken its pace in this respect. The chairman pointed out that as a result of tight control on inventories and expenditure, STC's cash position was very comfortable; from on overdraft of Rs 13·64 crores on April 1, 1968, the corporation had swung to a credit balance of Rs 4·19 crores as on January 24, 1970. The shareholders (i.e., the Government of India) have been given a further bonus of Rs 1 crore, increasing the total equity during the year from Rs 2 crores to Rs 5 crores. A quarterly dividend of 5 per cent, making a total of 8 per cent for the first half year, has been paid. For the first time, STC, has secured export orders for steel wire ropes to Poland (Rs 2·50 lakhs) and to West Germany (Rs 0·25 lakh) as well as for radio valves to Bulgaria (Rs 5·25 lakhs).

FICCI PRESIDENT ON RAILWAY BUDGET

"Once again on the plea of rationalisation of freight and fare structure, substantial increases have been made in freight rates and passenger fares," said Mr Ramnath A. Podar in a statement to the Press. Since 1960, every year freight rates have been increased in one form or another. During the last two years, such increases have been effected outside the regular budget. The proposed increase in freight rates in the present budget amounts to Rs 25·30 crores out of the total additional burden of Rs 39 crores. This is bound to reflect itself in price rise of industrial raw materials, said Mr Podar. The common man would also be affected, in addition, by the increase in passenger fares. It is not convincing as to why the budget should aim at such an excessive surplus of over Rs 22 crores through high levies. Mr Podar stressed that there was need for improving the operational efficiency of railways which had shown deterioration in the last three years. Very much more requires to be done by way of expeditious settlement of claims and ensuring the safety of goods from damage and pilferage *en route*.

INDO-DANISH AGREEMENT

India and Denmark signed on February 16 a three-year general co-operation agreement for assistance to projects in the shape of services of Danish experts, ancillary equipment and training awards for Indians selected to go to Denmark. Under the agreement, payment of salaries, international travel costs of Danish experts, ocean transportation cost of Danish equipment and payment of allowances to Indian trainees will be the responsibility of the Danish government. The Government of India will meet local costs of payment of salaries to Indian personnel, provision of materials and Indian equipment.

SMALL-SCALE INDUSTRIES

The value of production of 745 small-sized non-government and non-financial public limited companies with a paid-up capital of less than Rs 5 lakhs each increased by 6·5 per cent from Rs 130·7 crores in 1965-66 to Rs 139·2 crores in 1966-67, according to a study of the finances of these companies published in the Reserve Bank bulletin. The income from sales went up by 17 per cent during 1966-67 from Rs 129·6 crores to Rs 138·7 crores. Total expenditure also rose from Rs 127·5 crores to Rs 135 9 crores recording an increase of 6·6 per cent. The increase is attributed to increased wage bill, higher raw material cost and rise in interest payments.

EXPORTS TO IRAQ

Iraq offers good scope for export of Indian agricultural machinery, implements and tools. Exports from India to Iraq in 1968 were valued at Rs 2·6 million India's share has been limited to diesel engines, pumps, some rice mills machinery and spares. The principal suppliers of Iraq today are the UK and the USA followed by the USSR and other socialist countries. Iraq has, however, imposed certain restrictions on imports from the USA, West Germany, Italy and Japan. There is thus good scope for improving India's share in this market. There is no import duty on agricultural machinery apart from lawn mowers. The import duty on lawn mowers is 10 per cent and on hand tools 15 per cent.

SUGAR WAGE BOARD REPORT

The second wage board for sugar industry headed by Mr K. Bhim Shankaran, a retired Judge of Andhra Pradesh High Court, submitted its report to the government on February 18. The wage board was constituted in November 1965. The recommendations of the wage board will cover about 200,000 workers employed in over 200 sugar factories in the country. The board was set up to consider further revision of the wage structure in the

industry keeping in view the recommendations of the first wage board.

CASHEW EXPORTS

Cashew exports from India during the ten-month period ending January 1970 declined both in quantity and value compared to the same period in the previous year. Exports of cashew kernels during April 1969 to January 1970 amounted to 49,900 tonnes valued at Rs 53.15 crores exported during the same period of 1968-69 according to the Cashew Export Promotion Council. The USSR and the USA were the main buyers and they together accounted for nearly 80 per cent of the total cashew exports. Exports of cashewnut shell liquid during April 1969-January 1970 amounted to 7,600 tonnes valued at Rs 90·6 lakhs as against 8,600 tonnes valued at Rs 103 4 lakhs during the same months of 1968-69.

RECORD CLOTH EXPORT

Textile exports got off to a good start for 1970 with a record shipment in January, valued at Rs 13 crores. For the same month in the previous two years, the exports fetched only Rs 9 crores and Rs 6 crores respectively. In keeping with the phenomenal improvement in the export of cotton yarn during the greater part of 1969, shipments of yarn were more than double of those made in the first month of 1969 and a little over six times those shipped in January 1968 at 3·45 million kg valued at Rs 2·86 crores. The improvement in the export of cotton yarn has been mainly due to bulk deals that the Cotton Textiles Export Promotion Council has been able to put through with such countries as Burma, Ceylon, Indonesia and the UAR.

FAIR PRICE OF SUGAR

The Government of India has considered the Tariff Commission's report on the "Cost Structure of the Sugar Industry and the Fair Price of Sugar." The recommendations of the commission in regard to zoning of sugar factories and the cost schedules prepared by it for arriving at the ex-factory prices of sugar have been examined. The Commission has recommended the following fifteen cost zones, namely :

1. Punjab 2. Haryana, 3. Rajasthan, 4 West Uttar Pradesh, 5. Central Uttar Pradesh, 6. East Uttar Pradesh, 7. North Bihar, 8. South Bihar 9. Gujarat, 10. Madhya Pradesh 11. Maharashtra, 12. Mysore, 13. Andhra Pradesh 14. Tamil Nadu & Pondicherry and 15. Orissa, Assam, Kerala and Bengal.

After taking into account the various viewpoints in regard to the sizes of the zones, the commission has observed that on the whole the practical course to follow would be to substantially increase the number of price zones so as to reduce if not eliminate *inter se* anomalies in the cost structure. The Tariff Commission has given valid reasons in favour of a larger number of comparatively small and homogeneous zones, particularly as the continuance of large size zones has given rise to considerable anomalies due to the existence of wide variations in these large zones. The Government of India has accepted the recommendation of the Tariff Commission in this regard. The government has also decided to adopt the cost schedule prepared by the Tariff Commission for fixing levy prices for three years, i.e. 1969-70, 1970-71 and 1971-72 as recommended by it.

The Tariff Commission has recommended that in addition to the cost of production derived from the cost schedules with reference to the duration of the season and the rate of recovery of sugar, a fixed return of Rs 10 50 per quintal of sugar should be provided. In its view, the present requirements of this particular industry would be more equitably met by a departure from the conventional method and by adopting instead a uniform amount per quintal as a margin to be added to the other costs in arriving at a fair price of sugar. Accordingly, the commission has come to the conclusion that Rs 10·50 per quintal would be a fair amount to be so added. The Government of India has accepted this recommendation. This amount is intended to cover interest on capital, profit, taxation, etc.

The Tariff Commission has made certain recommendations regarding the grant of rehabilitation allowance and the levy of a graded slab system of excise duty according to capacity. A decision on these recommendations has been deferred pending consultation with the concerned interests.

The Tariff Commission has also made recommendations on a variety of other items relating to production of sugarcane, sugar, gur and khandsari. The government will examine these matters after consulting the interests concerned and the state governments' decisions on these matters will be taken after such examination.

Following the acceptance of the Tariff Commission's recommendations, the ex-factory prices of levy sugar of D-29 grade for the 1969-70 season (including excise duty at 23 per cent *ad valorem*) for the various zones have been fixed as follows :

Zone	Price in Rs per quintal
Punjab	164·84
Haryana	153·29
Rajasthan	177·16
West Uttar Pradesh	156·11
Central Uttar Pradesh	147·93
Eastern Uttar Pradesh	151·11
North Bihar	151·45
South Bihar	169·03
Gujarat	141·56
Madhya Pradesh	194·19
Maharashtra	135·54
Mysore	146·80
Andhra Pradesh	150·43
Tamil Nadu & Pondicherry	166·16
Orissa, Assam, Kerala & West Bengal	159·49

NEW PLANTS FOR LUDHIANA

The Government of India has issued letters of intent to the Punjab Industrial Development Corporation for setting up plants for manufacturing synthetic detergents, low cost radio receivers and trans-receivers. The Minister of State for Industries, Mr Ravel Singh, told industrialists recently, that the corporation would sponsor these projects in collaboration with private concerns and subscribe up to 51 per cent of the share capital in the ventures. Establishment of a brewery would be taken up at Ludhiana in April this year. The project was estimated to cost Rs. 1·25 crores. A steel billets plant would be located at Ludhiana at an estimated cost of Rs 3·5 crores. The Government of India has been requested to modify the letter of intent issued to the corporation for a plant for the manufacture of starch and glucose from maize so as to raise its capacity from 10 tonnes to 50 tonnes a day.

IMPORT LICENCES

The Ministry of Foreign Trade has decided to issue import licences for raw materials, spares and components, financed under various loans and credits for full 12 months, straightaway from March 31 this year. Hitherto, such licences were issued for three months. The new facility would obviate the necessity of issuing licences after every quarter. However, for licences to be issued for a year, it would be necessary for the importers to place the orders within four months. When orders are placed within this period, the licences could complete the shipments within the validity period of 12 months.

EXPORTS OF LEATHER GOODS

The export of hides and skins, leather and leather manufactures showed an upward trend during the six-month period April-September 1969 when, inclusive of footwear, India's sales abroad totalled over Rs 10·2 crores. The export of all these items, including footwear, in 1968-69 was about Rs 16·0 crores. A considerable increase was registered in the April-September 1969 period in export of raw hides and skins. Against total export of raw hides and skins worth Rs 5·30 crores during 1968-69, export in April-September 1969 was Rs 5·26 crores. However, sales abroad of footwear are declining. During the period April-September 1969, 1·8 million pairs of leather footwear valued at Rs 2·22 crores were exported compared with 6·1 million pairs valued at Rs 7·10 crores during 1968-69. Meanwhile, the government has announced the export policy for raw goatskins for 1970. According to the new policy regulations, established shippers will be allowed quota up to 15 per cent of their best year's export during any one of the calendar years from 1954 to 1958.

Readers' Roundtable

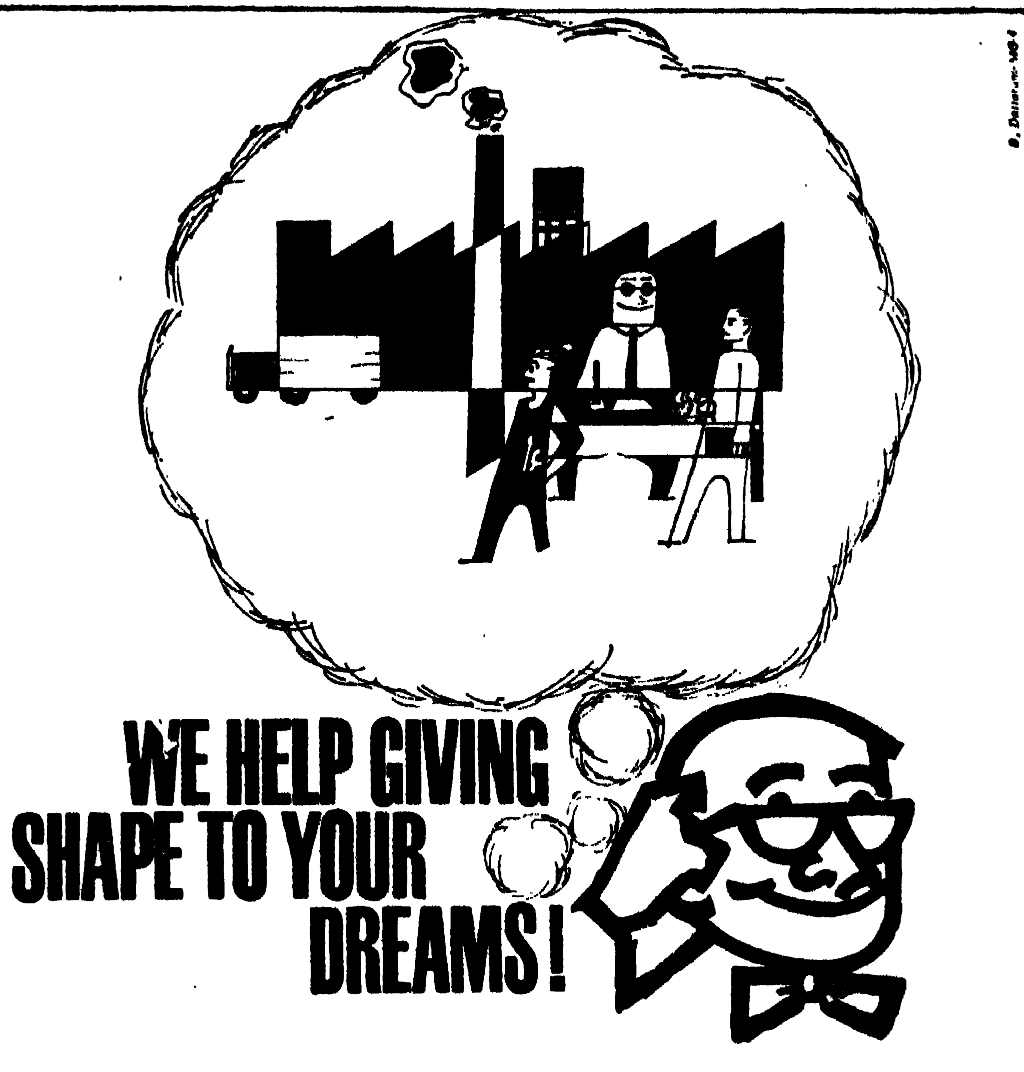
THE CASE FOR HSL

Sir, in your leading article "HSL : Turning the Corner", published in the issue dated February 13, I wish you had championed the case of HSL for a higher price with some more emphasis. If the government was chary of inflating the profits of the private sector steel plants—not that the private sector steel plants had a square deal—the least it could have done was to consider differential prices for the HSL plants by adding one more fund to the many funds which go into the uniform selling prices of steel. This is not to say that we must put a premium on inefficiency but when the government does decide to dictate a selling price, it cannot ignore the effect of a high capital block on the profits of a plant.

If the Shipping Corporation of India and the Indian Oil Corporation are making good profits the reasons are not exclusively better management and marketing, the lack of which, it is fashionable to repeat, Hindustan Steel is supposed to be ailing from. For historical reasons these two units have their rates fixed to a large extent by international corporations who have been in their business sufficiently long to know what is what. Most of the rates of SCI are fixed by the Conference Lines and the IOC selling prices are the same as those charged by the foreign oil companies. Devaluation of the rupee has been a windfall to these two units. For SCI, this meant an increase of almost 57½ per cent on its rupee earnings as the Conference Lines rates are quoted in pound sterling and for the IOC an increase of about 57½ per cent on the quantum of oil processed from indigenous crude—say five to six million tonnes. When the pound was devalued, the SCI did not suffer any appreciable fall in rupee revenue as the Conference Lines freight rates were increased by 12½ per cent!

I am not trying to belittle the achievement of SCI and IOC, which have acquitted themselves very creditably, or support the cause of a unit which works only to 65 per cent of its capacity in a booming market. But let the government make an effort to evaluate all the factors involved before dictating a selling price or a minister hastens to shower encomiums on a selected public sector unit. Hindustan Steel has a case for a higher price.

Bombay K.V. CHALAM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Company Affairs

AUTOMOBILE PRODUCTS

The Automobile Products of India Ltd has done well in the first six months of the current year (August 1969, to January 1970). Sales have been higher at about Rs 5 crores. The company expects a total turnover of Rs 12 crores in the current year against the actual sales of Rs 10·25 crores in 1968-69. The pre-tax profit in the first half of the current year is estimated at about Rs 10 lakhs against a loss of Rs 11 lakhs for the whole of 1968-69.

The chairman, Mr M. A. Chidambaram, has said that the company expects to receive shortly the government's permission for substantial expansion of its capacity. It has appilied for raising the capacity of two-wheelers from 24,000 to 60,000 and of three-wheelers from 3,000 to 12,000 units, per annum. The larger capacity will enable the company to reduce the production costs and develop new designs and models of scooters. As per its order books at the end of 1969, about 120,000 applicants for scooters and three-wheelers had been waiting for their turn. The chairman feels that it will not be in the interest of the company at this stage to increase the prices of its vehicles unilaterally when its application for expansion is under the consideration of the government. The Lucknow unit of the company is expected to show a significant improvement in its working in the current year. Its production has increased steadily. The company physically took over the management of this unit only on March 24, 1969; hence much reorganisation could not be effected within the short period of four months. The loss in the working of this unit for 16 months amounted to Rs 13 lakhs. The company has now improved the working of this unit which has already started making a modest profit.

VICTORY FLASK CO.

Mr V. R. Bhide, Managing Director, Victory Flask Co Ltd, told newsmen in Bombay recently that the company had completed the export order of Rs 11 lakhs to the USSR and looked forward to another order for the supply of vacuum flask to be completed before July this year. The company has installed an automatic plant capable of manufacturing 25 to 30 pieces per minute. Its annual production and sales are of the order of Rs 1·50 crores. Mr Bhide expected the exports this year to reach Rs 20 lakhs. The company is exporting flasks to various countries from the Philippines in the east to Norway in the west, though the bulk of them go to the USSR and Yugoslavia.

UPPER DOAB SUGAR

The working results of the Upper Doab Sugar Mills Ltd, during the year ended September 30, 1969, has resulted in increased net profit of Rs 28·43 lakhs after providing Rs 14·24 lakhs for depreciation, Rs 1·76 lakhs for development rebate reserve and Rs 35 lakhs for taxation. The directors have proposed a final equity dividend of 7·5 per cent for the year. Together with the interim dividend of 15 per cent paid earlier, the total dividend will be 22·5 per cent and will absorb Rs 16·87 lakhs. The sugar factory crushed 4·39 million quintals of cane but the sugar recovery was 8·69 per cent only.

WALCHANDNAGAR INDUSTRIES

Despite a substantial rise in turnover from Rs 7·79 crores to Rs 10·22 crores (which is a record for the company representing an increase of nearly 31 per cent over the previous year), the financial results of Walchandnagar Industries Ltd have suffered a severe setback during the year ended September 30, 1969. The gross profit has declined to Rs 58·07 lakhs from Rs 152·09 lakhs and the net profit has similarly dropped to Rs 16·38 lakhs from Rs 50·72 lakhs. The directors attribute the fall in profit to the introduction of excise duty on *ad valorem* basis coupled with the declining trend in the open market price of sugar. Scarcity of essential raw materials and rising costs have almost wiped out the benefits of a higher turnover in the industrial machinery division.

BAYER INDIA

Bayer (India) Ltd continued to make satisfactory progress during the year 1969 with sales increasing by roughly 40 per cent compared to the previous year at Rs 5 80 crores. Rubber chemicals continued to be the most important products. The sales of pesticides and pharmaceuticals also increased substantially. The preliminary figures released by the company showed a net profit of Rs 41·06 lakhs compared to a loss of Rs 40·30 lakhs in the previous year, after providing Rs 50·02 lakhs for depreciation and Rs 11 lakhs for statutory development rebate reserve. The total development rebate reserve till the end of 1969 amounted to Rs 76·50 lakhs. The net profit is adjusted against the accumulated losses which now stand reduced to Rs 113·02 lakhs from Rs 164·08 lakhs in the previous year.

BRITANNIA ENGINEERING

The working of the Britannia Engineering Co Ltd, resulted in a loss of Rs 43·76 lakhs in 1968 as compared to the loss of Rs 85·29 lakhs in the previous year, after providing Rs 16·71 lakhs for depreciation. A total debit balance of Rs 112·87 lakhs has been carried forward. The turnover was equivalent to Rs 3·90 crores. The loss for the third successive year was due to severe recession in the engineering industry. In the current year, some unutilised capacity will be utilised for producing wagon forgings. The company has obtained a licence to manufacture 55 h.p. and 70 h.p. crawler tractors in technical collaboration with Marshall Sons and Co Ltd, Gainsborough. The directors hope that there will be a sustained demand for this new product. The first 70 h.p. tractor is expected to be completed in March. The company has undertaken the manufacture of heavy trailers in collaboration with Marshall Sons and Co (India) Ltd. Orders in hand for wagon production will keep this section busy until June 1970 by which time further orders are anticipated.

KIRLOSKAR-ASEA

The working of Kirloskar-Asea Ltd during the year ended September 30, 1969, has resulted in improved gross profit of Rs 10·01 lakhs, following a rise in sales to Rs 53·24 lakhs from Rs 42·33 lakhs. Allocations include: depreciation Rs 2·50 lakhs, managing agents remuneration Rs 75,111, development rebate reserve Rs 10,735 and taxation Rs 1·45 lakhs. The net profit thus works out higher at Rs 5·14 lakhs. General reserve gets Rs 2·75 lakhs. The directors have proposed to raise the equity dividend from 5 per cent to 6 per cent, which will absorb Rs 2·40 lakhs. They point out that the present supply of certain essential raw materials such as steel sheets and copper sections is not adequate.

INDIAN VEGETABLE PRODUCTS

Indian Vegetable Products Ltd, has reported better working during the year ended September 30, 1969 with improved sales and profits. Sales have risen to Rs 5·92 crores from Rs 5·05 crores. The working during the year has resulted in a higher gross profit of Rs 17·23 lakhs. After providing Rs 2·94 lakhs for depreciation, Rs 26,000 for development rebate reserve and Rs 7·44 lakhs for taxation the net profit works out higher at Rs 6·59 lakhs. After making some adjustments, the amount available for disposal is Rs 7·93 lakhs from which a sum of Rs 7·92 lakhs has been transferred to general reserve, leaving Rs 768 to be carried forward, against Rs 517 brought in. The directors have proposed an equity dividend of Rs 16 per share (inclusive of bonus dividend of Rs 3 per share) against Rs 15 per share paid last year. Dividends will absorb Rs 4·65 lakhs and will be paid from the general reserve. According to the calculations of the company abont 27 per cent of the proposed dividend will be tax free. An application has been made to the tax authorities for determining the quantum of tax, free dividend.

RAZA BULAND SUGAR

The working of Raza Buland Sugar Company Ltd, has resulted in a small loss of Rs 11·11 lakhs for 1968-69 as against a loss of as much as Rs 55·27 lakhs for the preceding year. The dividend is naturally skipped again.

HINDUSTAN HOUSING FACTORY

The Hindustan Housing Factory Ltd, a central government undertaking, has raised the dividend from 6 per cent to 8 per cent for 1968-69. The company's production during the year touched an all-time high at Rs 19 41 million against Rs 18 million in the preceding year. The central government's shareholdings in the company amount to Rs 4·90 million.

MARTIN BURN

The directors of Martin Burn Ltd, have proposed a dividend of Re 1 a share on the ordinary shares for the year ended September 30, 1969, payable on or after April 2 to those shareholders registered as on March 30. The total dividend paid for the previous year was only 60 paise a share.

RUBY GENERAL

The directors of Ruby General Insurance Company Ltd, have proposed an interim dividend of Rs 1·25 a share for the year ended December 31, 1969. Transfer books will be closed from March 20 to 24. The total dividend paid for 1969 was Rs 1·25 a share.

HERCULES HOISTS

Hercules Hoists Ltd, has earned improved net profit of Rs 2·77 lakhs during the year ended August 31, 1969 as compareed to Rs 88,834 in the previous year, after providing Rs 80,410 for depreciation and Rs 563 for development rebate reserve. Sales have risen to Rs 23·56 lakhs from Rs 18·66 lakhs. The development of ratchet hoists has been completed and sales of this product are expected to be established in the current year.

KIRLOSKAR CUMMINS

Kirloskar Cummins Ltd has proposed a higher equity dividend of Rs 5 per share for the year ended September 30, 1969 against Rs 4 for the previous year.

BOMBAY DYEING

Bombay Dyeing and Mfg. Co Ltd, has proposed a final equity dividend of Rs 2 per share to shareholders on the company's register on

March 16. With an interim dividend of a rupee per share, the company has maintained the total distribution of Rs 3 for 1969.

UNION CARBIDE

Union Carbide India Ltd proposes to issue further bonus shares in the ratio of one equity share for every two shares held.

HONGKONG & SHANGHAI BANKING

The directors of the Hongkong and Shanghai Banking Corporation, announced recently that the profit of the bank, including dividends from subsidiaries, for the year ended December 31, 1969, after providing for taxation on profits on the same basis as in previous years and after making transfers to inner reserves out of which provision for diminution in the value of assets has been made, amounted to HK$ 90,736,157 (1968 HK$74,893,005). These figures are subject to audit. It is proposed to make a transfer of HK$10 million to the published reserves and to write HK$ 2 million off bank premises. It is then proposed to pay a final dividend of 9/- per share (instead of 7/- as forecast last year) costing HK$50,319,644. These appropriations, together with the interim dividend of HK$22,407,136 already paid, leave HK$6,009,377 to be added to the undistributed profit carried forward. The total distribution for the year will thus amount to HK$72,726,780 compared with HK$61,634,406 paid in 1968.

It is further proposed to recommend to shareholders at an extraordinary general meeting to be held on Thursday March 26, 1970 that a free scrip issue be made in the proportion of one new share for each share held on March 26, 1970 by the capitalisation of HK$191,291,625 of the Reserve Fund. The new shares will not rank for the proposed final dividend for the year ending December 31, 1969 but will be entitled to all subsequent dividends. Permission will be sought from the stock exchange in London and in Hong Kong for the quotation of the new shares. To give effect to the proposed free scrip issue shareholders will be asked to approve an increase in the capital of the corporation from HK$300 million to HK$500 million by the creation of 8,000,000 new shares of HK$ 25 each. The directors have no present intention of issuing the balance of new shares but they consider that it is desirable to have unissued shares available. If this proposal is approved the Reserve Fund will be restored to HK$260 million by the transfer of HK$ 191,291,625 from inner reserves. Subject to the level of profits of the corporation being maintained the directors expect to make the same total distribution and to pay dividends totalling 6/6d per share for the year 1970 on the increased capital.

LICENCES & LETTERS OF INTENT

The following licences and letters of intent were issued under the Industries (Development and Regulation) Act 1951 during the period November 30 to December 27, 1969. The list contains the names and addresses of the licensees, articles of manufacture, types of licences — New Undertaking (NU); New Article (NA); Substantial Expansion (SE); Carry on Business (COB); Shifting — and annual installed capacity.

Licences Issued

Metallurgical Industries (Ferrous)

M/s Hind Wire Industries Ltd, P-16, Kalakar Street, Calcutta-7. (West Bengal) —G. S. Wires —14,000 tons; H. B. Wire—1,000 tons (15,000 tons after expansion) (SE); Shri Modu Timblo, P. B. No. 31, Margao-Goa. (Gujarat)—Foundry Grade Pig Iron—3,00,000 tons (NU); M/s Parasramka Commercial Co Pvt Ltd; 135, Canning Street, Calcutta-1. (West Bengal) —Steel Wires—1,600 tons (Thinner than 13 gauges). (NA).

Fuels

M/s Damagoria Amdiha Coal Co. (Props. Damagoria Amdiha Colliery) P.O. Shamadih, Burdwan. (West Bengal)—Coal—18,500 tonnes (NU);

Electrical Equipment

M/s Fort Gloster Industries Ltd, Hall & Anderson Building, 31, Chowringhee Road, Calcutta-16. (West Bengal)—PVC Insulated; PVC Sheathed Cables—800 Kms.; M/s Universal Electrics Ltd, 15, India Exchange Place, Calcutta-1. (West Bengal)—(1) Multi Contact Relays (for locomotives), (2) Three Pole—non-directional IUMT over current stunt tipping Relays with or without, adjustable settings. 1250 (One thousand, two hundred and fifty) nos. (NA).

Industrial Machinery

M/s Mukand Iron & Steel Works Ltd, Lalbahadur Shastri Marg, Kurla, Bombay-70. AS (Maharashtra) — Ball Mills, Cube Mills, Crushers—Capacity will be fixed after watching the production of the next three years. (NA); M/s Hindustan Motors Ltd, Uttarpara, Hoogly. (West Bengal)—Inclibable Press Horming Presses Single Action Presses upto to 400 tons capacity. (Rs 50 lakhs only) (NA).

Chemicals (Other than Fertilisers)

M/s Hindustan Organic Ltd, P.O. Rasayani, Kolaba, Maharashtra. (Maharashtra)—Para Nitro Phenol—15,000 tonnes (NA).

Drugs & Pharmaceuticals

M/s Sandoz (India) Ltd, Sandoz House, Dr Annie Besant Road, Worli, Bombay-18. (Maharashtra)—Intestopen Substance—22·8 tonnes (SE).

Textiles (Including those Dyed, Printed & otherwise processed)

M/s Champdany Jute Co Ltd, 2, Netaji Subhas Road, Calcutta-1. (West Bengal)—Jute Carpet Backing Cloth. (200 Broad looms to produce 10,160 tonnes of carpet backing cloth). (SE).

Sugar

M/s Shree Dudhgana Vedganga Sahakari Skhar Karkhana Ltd; Bidri (Mouninagar), Taluka Kagal, Kolhapur, (Maharashtra)—Sugar—750 tonnes c.o. of sugarcane per day. (SE); M/s The Nizam Sugar Factory Ltd; Fateh Maidan Road, P.B. No. 1, Khairatahad, Hyderabad (Andhra Pradesh)—Sugar—Crushing capacity of 1,250 tonnes of Sugarcane per day. (NU); M/s Anil Starch Products Ltd; Anil Road, Ahmedabad-2. (Gujarat)—Liquid Glucose—12,600 tonnes & Dextrose—14,400 tonnes. (SE).

Rubber Goods

M/s Dunlop India Ltd; 57-B, Free School Street, Calcutta-16. (Tamil Nadu)—Automobile Tyres & Tubes—250,000 nos. each (SE).

Metallurgical Industries

M/s Vulcan-Lavel Ltd; Mustafa Building, 7-A Sir P. M. Road, P.O. Box No. 735, Bombay-10 BR. (Maharashtra)—Coils (Plate type)—1,000 Sq. Meters. (NA); M/s L. G. Balakrishnan & Bros Pvt Ltd; P. B. No. 254, India House, Trichy Road, (Tamil Nadu) Coimbatore-1—Cold Rolled Steel Strips. (M. S. Grades, Alloy Grades, Deep Drawing quality grades)—6000 tonnes. (NU); M/s Harbanslal Malhotra & Sons Pvt Ltd; 18, Netaji Subhas Road, Calcutta-1. (Haryana)—C. R. Alloy Steel Strips—3,500 tonnes, on the basis of maximum utilisation of plant & machinery on 2 shifts working (NU).

Electrical Equipment

M/s Eswaran & Sons Engineers (Pvt) Ltd; 5-7, Second Line Beach, P.B. No. 1912, Madras 1. (Tamil Nadu)—Air Circuit Breakers—0·800 Amps—900 nos. Air Circuit Breakers—4000 Amps.—300 nos. (NA); M/s Salgaocar Engineers Pvt Ltd; Salgaocar House, Vasco-da-Gama, Goa. (Goa)—Snow-Blowers Detachable type—50 nos. (NU).

Industrial Machinery

M/s Garden Reach Workshop Ltd; 43/46, Garden Reach Road; Calcutta-24. (West Bengal)—Hydraulic Steering Gears—15 nos. (NA); M/s Garden Reach Workshop Ltd, 43/46, Garden Reach Road; Calcutta-24. (West Bengal)—Electric Anchor—20 nos. Windlasses Electric Capstans—12 nos. (NA); M/s Travancore Electro-Chemical Industries Ltd; P.O. Chingavanam, Kerala State. (Kerala)—Silicon Carbide Grains—1500 tonnes (NA).

Agricultural Machinery

M/s Lynx Machinery Ltd; 2, Ring Road, Lajpat Nagar-IV, Part-I, New Delhi-24. (Haryana)—TL-30A (30 HP) Crawler Tractors—3,000 units (30 HP) (NA); The Managing Director, Bharat Earth Movers Ltd; Bangalore-17. (Mysore)—Tiger—120 S Wheeled Tractors/Front-end leaders—50 nos. (NA).

Chemicals

M/s Kajan Kumar Rajgarhia, Mica House & Pretoria Street, Calcutta-16. (Rajasthan)—(*i*) High Density Polyethylene woven sacks—2·5 million, (*ii*) Plastic Tarpaulins—100 tonnes, (*iii*) Plastic Woven sheets—25 tonnes. (NU); Shri L. R. Reddy, 15, Mayfair, Veer Nariman Rd; Bombay-20 (Maharashtra)—(*i*) P.V.C. Sacks—3·5 million per annum, (*ii*) P.V.C. Flat Extruded film & sheets—1,000 tonnes p.a. (NU).

Drugs & Pharmaceuticals

Shri K. M. Patel, Elys Chemical Laboratories (Pvt) Ltd; Radha Kunj, Flat No. 4, Santacruz (West), Bombay-54. (Maharashtra)—Chloramphenicol & Tetracycline —20 tonnes (NU); Shri R. N. Dey, c/o M/s Boots Pure Drug Co (India) Ltd; 35, Lotus Court, Jamshedji Tata Road, Bombay-1. (Maharashtra)—(*i*) Diloxanide Furoate B.P.—12 tonnes. (NA); (*ii*) Pharmaceutical Lozenges—60 million Nos. after expansion. (SE) (BA); M/s Delicia India Ltd; Mahalaxmi Chambers, 22, Warden Road, Bombay-26. (Maharashtra)—Dicofol (Kelthane)—100 tonnes (NA).

Food Processing Industry

M/s Northern Dairies India Ltd; 6, Panchsheel Marg, New Delhi-11. (Rajasthan)—Malted Milk 400 tonnes Skim Milk Powder—1000 tonnes, Industrial; Cassin—37 tonnes (NU); M/s Amrit Foods (Pvt) Ltd; G.T. Road, Ghaziabad, U.P. (Uttar Pradesh)—(*i*) Vegetable Protein Drink—4,000 tonnes. (*ii*) Frozen Dessert—5,000 tonnes p.a. (NU).

Glass

M/s Vazir Glass Works Ltd; J.B. Nagar, Andheri, Bombay-59. (Maharashtra)—Glass Bottles—12,000 tonnes p.a. (SE).

Change in Names (Owners/Undertakings)

(Information pertains to particular licences only)

From M/s Delton Cable Co to M/s Delton Cable Industries Pvt Ltd.

Licences Revoked or Surrendered

(Information pertains to particular licences only)

M/s Nathani Industries Pvt Ltd; Adjoining Vidya Vihar Rly. Station, Bombay-77 (AS)—Automobile Parts and Scientific & Industrial Instruments parts. M/s P. S. Ball, Bearing Co Ltd; 7-A Rajpur Road, Delhi-6—Ball, Roller & Tapered Bearings.

BOOKS BRIEFLY

Bargaining for Productivity

Productivity Bargaining and Industrial Change: Nora Stettiner; Foundation on Automation and Employment Ltd; 1969; Pp 185; Price not given.

Size and Capital-Intensity in Indian Industry: J. C. Sandesara; University of Bombay; 1969; Pp 163; Price Rs 14.

Industrial Relations in Printing Industry: C. P. Thakur and Fred C. Munson; Shri Ram Centre for Industrial Relations, New Delhi; 1969; Pp. 152; Price Rs 25.

Surplus Manpower in Agriculture and Economic Development (With special reference to India); Prafulla Sanghavi; Asia Publishing House; 1969; Pp 343; Price Rs 36.

Poverty and Social Change (With a Reappraisal): Tarlok Singh; Orient Longmans; 1969; Pp 352; Price Rs 25.

Foreign Collaboration—Report and Proceedings of the Seminar held by the Centre of Advanced Studies; Edited by Prof. R. K. Hazari; University of Bombay; Pp 271; Price Rs 18.

Reviewed by Prof. S. S. M. DESAI

Productivity Bargaining and Industrial Change is a delightful book which will enable management and workers reach better understanding of what is needed to raise efficiency and achieve a greater measure of social justice.

Progress in technology has a profound impact on employers and workers and hence on the entire system of industrial relations and by implications on income distribution and economic growth of the country. For employers, technological change means ever-growing scale of production, increasing specialisation and enormous investments in costly machinery with a rapid rate of obsolescence. All these necessitate more accurate and more precise managerial decisions. This has made management more planning-conscious and compelled it to seek greater efficiency and control over manpower utilisation in order to reduce direct labour costs and to achieve more effective use of capital equipment.

It is in this context that productivity bargaining can be seen as an extremely useful tool for management control. Productive bargaining may be defined as "An agreement on which advantages of one kind or another, such as higher wages or increased leisure, are given to workers in return for agreement on their part to accept changes in working practices or in methods or in organisation of work which will lead to more efficient work.... the concessions on the workers' part must...be in specific concrete terms." Thus, productivity bargaining enables management "to make a frontal attack on restrictive practices in collaboration with workers, not in sterile opposition to them. It facilitates an increase in the interchangeability of work force; a reduction in number of men required to do the job; elimination of unnecessary overtime and more flexibility in working hours; and overhauling of the wage structure to make it simpler, more stable, more equitable, more of a stimulus to output and more conducive to flexible use of manpower."

For workers, the impact of technological change is even more shattering as it has effect on job content, skill and training requirements, level and stability of earning, promotion prospects, working conditions and employment prospects. Hence the significance of productivity bargaining which makes industrial change acceptable to all the parties concerned. Through negotiations at plant and company level, workers can, through their trade unions, obtain commitments assuring them of a fair share in the fruits of technological progress and protection against its evil effects.

It is at the plant level that the effects of changing technology make themselves felt first. It is at this level that worker participation and involvement can give real meaning by linking concessions to employees with productivity and labour utilisation. Even more significant, many of the obstacles to efficient use of labour can only be removed by action close to the plant level, instead of company or industrial levels. It should be noted that most of the benefits obtained by workshop negotiations are not in contravention to national agreements but are supplementary to them. National negotiations provide a flexible framework within which plant negotiations can be effected to suit local conditions. Thus has been emerging in Great Britain the concept of "two-tier" bargaining. It should be noted that this requires the establishment of effective institutional machinery at plant level and also development of new attitudes, new channels of communication, new types and sources of information and better training of both management and trade union staff. Also it should be noted that as technological change never comes to an end, productivity bargaining is never finished. It is an ever-continuing process.

A major factor in the inflationary process in Britain has been the "wage drift" so that the inflationary chain reaction of wage-cost-price-wage increases is perpetuated with its serious consequences for individual and social stability, for balance of payments equilibrium and for economic growth. Productivity bargaining can help contain this wage drift and thus fight inflationary pressures by bringing about a more rational and equitable wage structure within a plant and enterprise. It can do this by consolidating wage rates, cutting down overtime, tightening up incentive systems, loosening craft demarcations, stimulating occupational mobility, eliminating anomalies within the firm and encouraging joint management-worker decisions. It must however be never lost sight of that productivity bargaining was never designed as a way of improving distribution of income. Its purpose is to increase efficiency in the utilisation of manpower.

Experience of productivity bargaining in Britain to date clearly warrants the conclusion that it constitutes an invaluable link in a programme for coping with industrial change. The developing countries such as India which have ambitious industrial programmes on hand can learn much from the dynamic institutional changes such as productivity bargaining and agreements which are taking place in contemporary Britain. This extremely readable book is therefore strongly recommended to the students of industrial economics in these countries.

IN DEFENCE OF SIZE

According to Prof. Sandesara, the Government of India's policy of promoting small-scale industries in the country is based on two important premises. It is believed that per unit of capital employed, the small industry produces more output and secondly per unit of capital employed, it also employs more workers than large industry. If the above assumptions are correct, the policy implication logically following is that a developing country such as India, with its given factor endowments, namely relative abundance of labour and scarcity of capital, should obviously try to evolve and follow the policy of promoting small industries.

But according to the author of *Size and Capital-Intensity in Indian Industry* the question whether the above two premises are valid and whether they have been empirically tested cannot be satisfactorily answered without sufficiently detailed analysis of the size, technique and economic characteristics of small as well as large industries in the country. The author has therefore made an attempt in this volume to empirically test the above two premises on the basis of detailed analysis of 29 important industries of different sizes reported in the *Census of Indian Manufacture*.

On the basis of his empirical analysis, Prof. Sandesara has arrived at the following startling conclusions. According to him the facts of Indian industries do not support the two premises referred to above. In fact, the small industry in India is generally found to be producing less output and often employing less labour, *each* per unit of capital than the corresponding large industry. In other terms this means that such merits as are explicitly claimed or tacitly assumed for small industry on capital saving count are generally to be associated with large units or industries and the other virtue such as on employment-creating count is, according to the author, to be found evenly in small as well as large industrial units in the country. On the basis of these findings, Prof. Sandesara concludes, "a policy of promoting small-scale industrial units would be tantamount to promoting those which be penalised and penalising those which should be promoted seriously. Surely, large units and labour-intensive techniques do seem to deserve a new and better deal."

Though the author shows awareness of the limitations of the methodology that he has employed in his investigations, those limitations are quite serious and need mention. Perhaps the most serious charge that can be levelled is that really small units do not figure at all in the *Census of Indian Manufactures* from which the author has taken the figures. There are other equally serious limitations. It should be noted that output is not the function of just capital and labour. Other factors also influence it. While for practical purposes the estimates of capital on the basis of replacement cost would be more logical, the author's valuation is however based on the valuation of capital as given in the books of the factories. One more serious limitation is that while making estimates of total capital requirements, both social as well as private capital should be taken into consideration, in actual fact the author takes into consideration only private capital requirements. Since large industries use more social capital (e.g. electricity, rail and other means of

transport and communications etc., etc.) than small units, it is possible that this might vitiate to some extent at least the conclusion of the author that per unit of capital in large industries produce more value than small industry.

With all the above limitations, Prof Sandesara feels that "the tone and trend of the conclusions arrived at here are probably not likely to be much disturbed even when the influence of the various limitations are considered." The critical reader is however left with the impression that more comprehensive and detailed analysis of this problem is necessary before Prof. Sandesara's conclusions are accepted as empirically established propositions. However, the greatest service which the author has rendered by the publication of this book is to warn us to be sceptical about and seek empirical verification of many of our assumptions which over years we in India have come to accept as almost axiomatic truths.

PRINTING INDUSTRY'S PROBLEMS

The authors of *Industrial Relations in Printing Industry* have undertaken the investigation of the commercial printing industry in Delhi with four specific objectives in view. First, the study attempts at describing the state of industrial relations of an industry which is characterised by small firms. Secondly, it seeks to bring out the quality and the possibility of enforcement and implementation of labour legislation in such an industry. Thirdly, the study seeks to determine the influence of the product market pressures on wages and working conditions in the industry. And lastly, it seeks to understand the manner in which the ability of small firms to expand sales and improve quality of product is influenced by such labour market conditions as the availability of skill, wage rate and work rules.

The investigation has given some very instructive conclusions. The authors point out that printing is an industry of small firms and is quite likely to remain so. The market favours small firms and makes it easy for newcomers to enter the industry. The market is exceptionally diverse in size of orders, quality demands and variety of products. A common technology means that both experienced workmen and inexpensive second-hand equipment will be available to new entrants. It needs to be noted that in Delhi almost half the firms in the printing industry were less than six years old.

It also needs to be noted that the nature of the printing market is uniquely suited to allow enterprising workers to try their hand at management. But the combination of small firms, new employers, simple technology and competitive markets all mean that labour laws will not be implemented easily and effectively. It was found that employers in such firms will have neither the knowledge, nor the inclination nor the resources to do so. For such firms, governmental prescriptions will not be the chief source of operating rules. Informal working arrangement between the employer and his workmen regarding rules of work is the common practice in these small printing firms. The effect of labour legislation in printing industry in Delhi, according to the authors, is not what the framers of the legislation had in mind. Is one effect of labour legislation to cause printing firms to consciously decide to remain small as measured by employment? The investigations give no clue to this question.

A regards the functions of printing unions, the authors are of the opinion that the nature of forces at work in the printing industrial relations scene are such that it is the workers' organisations which hold the key to rapid progress in improving conditions of work. The workers' unions can most easily become the social innovator by tapping the latent bargaining power of the skilled group. Until they do this, individual bargaining will continue to characterise the Delhi printing industry.

As regards the effect of product market pressures on wages and working conditions, it was found that the demand for quality products has placed the skilled workman in a very different position than his unskilled brethren. He is in a position to bargain independently as he owns a salable commodity. As a result, the working rules concerning wages, availability of overtime or even second job, and the general respect according to the skilled worker differ sharply from the conditions facing the unskilled worker. In the present context, the market is clearly a powerful depressant on working rules for the low-skill workers, just as it is the lever by which high-skill workers gain their advantage.

As regards worker mobility and skill formation, the investigation has revealed that experience and training will lead to higher skill more surely than education and training can. Further, the present high mobility should be viewed as an asset and not as a liability. No doubt, it lacks rationality and sometimes causes hardships; but it is the crucial feature of the printing industrial relations and makes change and improvement possible. Mobility should be strengthened rather than weakened in the process of adding rationality to it.

What are the wider implications of this study? Industries in which small firms predominate are quite common in India and so is the shortage of skilled labour. The study suggests that efforts to overcome this shortage of skilled workers should start with the needs of the industry as determined by a study of that specific industrial relations system. The authors rightly emphasise that conceptually it is quite easy but of little practical value, to apply macro analysis to such questions. Craftsmen are a key to rapid industrial development: but they cannot be easily produced in an

environment that lacks a constant leavening of industrial contact. Skilled workers can make good unionists as well as good employers. The authors have rightly concluded that whether it is in Delhi printing industry or in similar industries elsewhere, an investment in industrial skills will lead to more healthy industrial relations as well as to higher industrial productivity.

Macro approach to the problems of industrial relations, especially in vast countries like India, has severe limitations. Such an approach can at the most provide the broad framework of policy, leaving the varying details to be filled by policies based on micro analysis of the type provided by this book on *Industrial Relations In Printing Industry*. The joint authors have provided an excellent model for similar studies. The solution to the problem of industrial relations should first be sought at the plant level on the basis of analysis provided by Thakur and Munson, if that complex problem is to be tackled successfully at the industry and national levels, to secure industrial peace so necessary for the rapid industrial development of the country.

SURPLUS MANPOWER

Since Prof. Nurkse stimulated the discussions on the implications of the existence of surplus labour in the agricultural sector for the growth of underdeveloped countries, the basic issue in all these discussions has been the extent to which the surplus manpower existing in the agricultural sector is mobilizable for economic development. But unfortunately there are hardly any intensive studies, subsuming the technical, economic and sociological data, of the emergence and impact of surplus labour force in agriculture on total farm output and on the course of economic development. Prafulla Sanghavi has made an attempt to study this subject with special reference to India in his *Surplus Manpower in Agriculture and Economic Development.*

The author defines surplus manpower in agriculture as a situation in which "the withdrawal of surplus labour force accompanied by complete reorganisation of agriculture would result in some increase in the total output." He defines a major reorganisation of agriculture as the consolidation of fragmented holdings and the rearrangement of small holdings into larger units. In chapter three the author has given the technique of measuring surplus manpower in agriculture. The demand for labour during different agricultural operations is uneven and it is at the maximum during the harvesting period. The author therefore thinks that "demand for labour for harvesting operations should be taken as the requirement of labour in agriculture as a whole in working out the estimate of the surplus workers." With this concept of surplus labour and on the basis of some village surveys, the author has calculated that nearly 47·20 per cent of the total labour force is surplus and can be released from agriculture.

This analysis throws light on how a large number of surplus workers in agriculture manages to exist and add to their number. Sale of assets, especially of land, plays the central role in financing the meagre consumption of the underemployed and unemployed in agriculture. The process of growth of surplus manpower in agriculture brings about a reduction in per capita area owned by cultivators; but at the same time it enhances its value. This process gets prolonged over a long period. From the point of view of the community as a whole, it is an unproductive consumption since it leads only to transfer of assets and not to the creation of new ones. This means that the institutions of tenancy and private moneylending based on the principle of maximisation of private gains in the environment of growing surplus manpower in agriculture are detrimental to the growth of agricultural output and to the national economy as a whole. From this the author concludes that there are no autonomous forces in the economy which can generate self-sustained growth of the per capita income. The intervention of the state and some form of planning by the government alone can transform the present-day stagnant underdeveloped economy into a dynamic and mature economy in a reasonable span of time.

Considering the aspect of surplus manpower in agriculture from the point of economic development, Sanghavi is of the opinion that even in modern industrial countries constructional activity which lends itself to hand labour is as much as 30 to 60 per cent of gross fixed investment and therefore it should not be difficult to think of this surplus agricultural labour in India creating capital assets without using any but the simplest tools. The extent to which this surplus labour can be used for the creation of capital assets depends upon the organising ability of the community.

This will mean that the planning authorities will not only have to provide for an increase in farm output but will also have to plan for an increase in the supply of goods and services of the industrial sector to be exchanged against the increase in the optional surplus in accordance with the demand pattern of the cultivators. This should obviously influence the investment pattern of the future five year Plans.

This is the first systematic attempt to study the subject of surplus agricultural labour in India and its impact on total farm output and the course of economic development. Relating demand for agricultural labour to harvesting of major crops during major harvesting season and estimating surplus labour on the basis of a few farm surveys are likely to give only tentative conclusions. And yet this pioneering study, though containing much that is commonplace, points the way as to how to proceed to measure the suplus labour in agriculture and relate it to economic development. Agricultural reconstruction which commenced after independence seems to have got bogged down and on that account, if not any other, this book by Prafulla Sanghavi is extremely welcome.

THE REAPPRAISAL

Prof. Tarlok Singh's *Poverty and Social Change*, first published in 1945 was regarded as a pioneering work on the problems of India's rural structure and poverty. The study presented an analysis of rural poverty and based on that analysis various proposals that would bring about transformation of rural society. The book created quite a stir in India when it was first published due to its what was then considered a comprehensive and original approach to the problem of rural reconstruction. Though most books belong to the period in which they are written, yet the problems and objectives set out in this book nearly 23 years ago are as true today as when the book made its first appearance. Despite the great changes that have come about on the rural scene after independence, the old core persists. And hence the publication of the text of *Poverty and Social Change* as part one of the present book. Drawing to a great extent on new data now available, part two of this volume consists of a new essay on *The Present Perspective of Rural Society*.

In part one, the author has emphasised the necessity to plan and reorganise rural society in terms of a number of major objectives. Present economy has to be reorganised so that it becomes efficient. In so far as 'superior' rights bar the way to village reorganisation on Zamindari areas, a solution to this problem must be found. If the existence of substantial landlords who hold land directly, is to be socially defensible, tenants-at-will must be protected. The depressed classes must get both social and economic freedom and equality with others. Village artisans must be brought into relationship with the industrial economy. Money lenders must give place to more efficient credit institutions. If large and significant economic changes are desired, it is necessary to set about reorganising our society on the basis of a number of liberating social and economic ideas. Unless all these problems of rural masses are seen as a whole, we will not be able to plan consciously in a manner which will set new forces into motion and so by simultaneous action transform the life of every section of the rural community.

This is the burden of the song with which we have become all too familiar all these years so much so that we have convinced ourselves, consciously or unconsciously, that this is the

only way to rural reconstruction and prosperity. Prof. Tarlok Singh's entire solution to the problem of rural reconstruction and poverty hinges on his plan of joint village management which scheme has been spelt in great detail. The stupendous nature of the scheme as also its impracticability in a backward country like India becomes obvious when the author states that the joint village management will require detailed information from each family regarding (i) its composition, (ii) the fields owned and cultivated by it, (iii) its supplementary sources of income, (iv) its agricultural implements in the shape of implements and tools, (v) its indebtedness, both secured and unsecured, and (vi) particulars concerning the health and education of each of its members. He feels that on the basis of this exhaustive information we should be able to form a complete picture of our problem for the village as a whole. At every stage, the author emphasises that special control is of fundamental importance in the complete social and economic reorganisation of our rural society. The grandiose nature of the plan shows its own limitations which became obvious when many of the ideas suggested by the author were attempted to be put into execution after independence. The entire concept of joint village management is based on the idea that the majority of the units of cultivation are uneconomic. However, Japan has shown that with average units of cultivation smaller than in India, Japanese farmers have been in a position to produce more per hectare than large farms in the USA and USSR. The organisational pattern suggested by the author some twenty-five years ago may be in consonance with the agricultural techniques prevailing then but the new scheme of organisation will have to take note of revolutionary changes in agricultural technique which have taken place during recent times. The whole of part one therefore appears almost of historical significance and therefore makes extremely dull reading.

In part two the author gives the reappraisal which covers practically the same ground all over again. To achieve the objective of rural reconstruction, the author again insists on community approach to agriculture as also systematic regional and area planning, careful selection of industrial techniques and their location. Above all he insists on a complete commitment on the part of the society to assure work and livelihood and opportunity for growth to every single citizen.

The arguments in both the parts covers the same ground and advocate practically the same point of view and proposals. Inevitably there are repetitions which often make reading tedious. Since many of the ideas adumberated in the old book were tried in some form or another after independence, the author should have seen their limitations and accordingly modified his views and proposals towards the problem of rural reconstruction and poverty. That he has not done so only means that probably consistency is the greatest merit of the book and of its author.

FOREIGN COLLABORATION

Foreign Collaboration---Report and Proceedings of the Seminar held by the Centre of Advanced Studies details the proceedings of the seminar held by the Centre in February 1963 on foreign collaboration.

The underdeveloped countries which have made ambitious plans for rapid industrialisation have in general in the words of Prof. Friedman "come to see that co-operation with industrially developed countries for use of their capital, their resources, and their skill and experience is more economical and ultimately quicker way of achieving industrialisation than to go it alone". But though foreign collaboration in industrial ventures looks beneficial from the short-term point of view, its long-term likely adverse consequences, especially on the growth of indigenous talent, evolution of suitable techniques and on balance of payments, etc., etc. will have to be carefully weighed before deciding on policy.

The topics that came up for discussion at the seminar were (1) scope of collaboration in various economic activities, (2) problems of technical collaboration, (3) collaboration in public enterprises, (4) collaboration with the centrally planned economies, (5) financial collaboration in the private sector, and (6) export of Indian capital, enterprise and know-how as also its impact on the balance of payments. This volume presents the papers and the proceedings of the seminar.

The first articles on Policy and Procedures outlines the policy of the Government of India in respect of foreign capital as that policy evolved since 1958 to 1963. We definitely notice a trend towards liberalisation as a consequence of better appreciation of the subject by the government.

The article on Foreign Collaboration by the Research Bureau of the *Economic Times* is full of facts and figures, indicating the various bases on which collaboration has been brought about. The paper points out that most of the joint stock companies working with foreign participation are working very efficiently in India and the profitability rates of many such units are found to be higher than those of other Indian companies or even larger than many of the corresponding parent companies operating outside. It is clear from the table that during recent years many of the collaborations were in industries falling under the major groups 'engineering' and 'chemicals'. The major bases of collaboration have been financial and technical. The paper rightly objects to the withholding of the details of agreements from the shareholders and research workers.

In his brief paper P. K. Srivastava has very well analysed the effect of foreign collaboration on the locational pattern of industries. The foreign collaboration has only accentuated the concentration of industries in the already developed areas. Thus about 50 per cent of all the joint ventures analysed in the paper have come to be set up in Maharashtra and a third in West Bengal, Delhi and Madras, while backward states such as Orissa, Bihar, Madhya Pradesh, Rajasthan and Assam have only 7, 6, 6, 6 and 2 joint ventures respectively. An important feature of the new location pattern has been the emergence of union territory of Delhi which comes next only to Maharashtra and West Bengal. There has also been significant improvement in the cases of Gujarat and Mysore which have 68 and 41 joint ventures respectively. The reasons for concentration are apparent, namely provision of adequate infrastructure facilities which cannot be provided to the same extent by the backward states.

N. D. Sakhwalkar has discussed the general principles which govern the taxation on various payments made by Indian concerns to foreign entrepreneurs when they enter into technical collaboration. He has made the general principles clear by giving a number of illustrations. K. K. Subrahmanian in his very informative paper has outlined and analysed the evolution of foreign financial collaboration in the private sector from 1956 to 1965. The tables given on pages 66 to 88 contain rich material. The author has drawn attention to the fact that according to a recent survey conducted by the U.K. Board of Trade, the earnings ratio of British direct investment in India was 9·4 per cent in 1962. The author has shown that this return is much higher than the rates of return on similar investments in many other countries.

As regards export of Indian capital and know-how, it is pointed out that roughly till the middle of 1964, the policy of the Government of India was to discourage the export of Indian capital. Since then there has been definite liberalisation of the policy. The main industries in which the possibilities of industrial collaboration are to be explored are textiles, sugar, cement, cement products, asbestos cement, solvent extraction, toilet requisites and soap, engineering goods and various kinds of chemicals including fertilisers and sulphuric acid.

The paper rightly warns that due to the present tremendous competition among western nations and Japan to capture markets in underdeveloped countries of Asia and Africa for their investments, this is not going to be easy for India.

While the inflow of capital into a country increases available resources, it also creates liabilities which involve future international payments by the recipient. The inflow of resources, if put to productive uses, can create the means to make such payments plus a net addition to future consumption. This is the basic rationale for seeking foreign investment. In the light of this, K. M. Kauffman examines at great length some balance of payments im-

plications of two broad categories of foreign investments namely loans and equity.

This is an extremely important book containing valuable papers analysing the various theoretical aspects of foreign collaboration as also Indian experience in the field. The exposition is authoritative and backed by rich empirical data. Certain amount of repetition which is inevitable in such seminar papers hardly attracts reader's attention which gets absorbed in the lively exposition of various aspects of foreign collaboration which is bound to play an increasingly important role in years to come. It is a pity that there were no papers by experts on such aspects as collaboration in the public sector enterprises and collaboration with centrally planned economies.

And yet in spite of the above shortcomings and though the seminar was held some five years ago during which time we have accumulated considerable amount of additional knowledge and experience in this field, the papers and discussion in this volume are worth reading and definitely contribute to the better understanding of this complex subject.

Guides for Company Secretaries

Secretarial Practice and Office Procedures (Profession of Company Secretaryship Series): S. Lal; Premier Book Co, Amir Chand Marg, (N i Sarak), Delhi-6; Pp 54; Price Rs 7

Company Law (Profession of Company Secretaryship Series): S. Lal; Premier Book Company; Amir Chand Marg, (Nai Sarak); Delhi-6; Pp 209; Price Rs 8.

Reviewed by B. GANAPATHY SARMA

COMPANY SECRETARYSHIP is comparatively a new profession in India and it is merely emerging on the Indian horizon. Company secretaryship examinations are now conducted regularly by the Institute of Company Secretaries of India and only qualified candidates are absorbed in service. Obviously the emphasis is now on greater sophistication in the field of company secretaryship and it can be met to a large extent through appropriate books. Naturally there has been a long felt need for good books written by competent authors which will suit eminently the requirements of aspiring students. To fill the void in this neglected but a very important field, the author Mr S. Lal, who is an authority on the subject, proposes to bring out a series—a volume for each paper—to provide skilled guidance to students who wish to sit for company secretaryship examinations. This intention, of course, circumscribes the scope of the treatment of the subjects and makes it more or less examination-oriented but it immensely fulfils the purpose for which it is intended.

The books have been written in question and answer form and it includes all the questions, it seems, that have been set since the inception of the examination. The coverage is comprehensive and up-to-date and all subject matter has been dealt with and discussed threadbare. The style is unique—concise, precise and simple. Perhaps one among the chief merits of these publications is its unusual simplicity of style so much so that even complex and complicated points could be understood and easily digested by intelligent students.

Secretarial Practice and Office Procedures is the first volume in the series. The style of presentation in this book—questions that have been asked on the subject in the examinations and answers to them—is maintained uniformly throughout the book. An index-cum-contents follows the preface and this should provide some help to the students who want to study the subject chapter-wise as the same gives reference to the subject, the question number, the year of the question put and the page number. A thorough study of the book will enable the student to gain expert knowledge of the subject.

Company Law, the second in the series, is also designed in such way as to provide comprehensive guide to the students of the Institute of Company Secretaries of India. The book incorporates the latest amendments to the Companies Act, 1956, including those of the Companies (Amendment) Act, 1969, which seeks to prohibit employment of managing agents and secretaries and treasurers from April, 1970. In view of the significant role played by the managing agents and for the obvious necessity of deep study and understanding of the subject, this chapter has also been included in this book. The standard and form of presentation remains the same as of the first book in the series. Exhaustive contents following the the preamble is set to make topic-wise reading possible for the selective readers of this and other similar examinations.

In brief this authoritative, exhaustive and comprehensive volume, neatly designed, indexed and discussed, will be of invaluable help and benefit not only to students but also for the fellow professionals as well. Further when considered against the Administrative Reforms Commission's recommendation on Company Law Administration that in case of large public companies only qualified secretaries or persons with suitable professional qualifications be appointed as company secretaries, these publications are sure to gain in popularity.

Books Received

Seminar on Tax Administration: Indian Institute of Public Administration, Maharashtra Regional Branch; Popular Prakashan; Pp 135; Price Rs 12.

Construction Equipment Directory 1970: Published by the Indian Engineering Association; Pp 72; Price Rs 5.

Conditions of Stability and Growth in Arid Agriculture: N. S. Jodha and V. S. Vyas; Agro-Economic Research Centre, Sardar Patel University, Vallabh Vidyanagar; Dist. Kaira, Gujarat; Pp 127; Price Rs 15.

As Labour Organizes: S. M. Pandey; Shir Ram Centre for Industrial Relations; Pp 243; Price Rs 25.

Simposium on Bulk Handling of Raw Materials: Special Issue of the Journal of *Mines, Metals and Fuels*; Managing Editor: P. K. Menon; Published by Books and Journals Private Ltd, 6/2 Madan Street, Calcutta-13; Pp 214; Price Rs 25.

Modernizing Peasant Societies (A Comparative Study in Asia and Africa); Guy Hunter; Published for the Institute of Race Relations, London, by Oxford University Press; Pp 324; Price Rs 27·50 (Indian Edition).

Public Finance: K. K. Sharma; The Bangalore Printing and Publishing Co Ltd, 86-87 Mysore Road, Bangalore-18; Pp 563; Price Rs 22·50.

Indian Handicrafts: Publications Division, Ministry of Information and Broadcasting; Pp 72; Price Rs 4 50.

Customs Valuation Systems: (*A Study in methods with Special Reference to India*): P. K. Pandey; Indian Institute of Foreign Trade; Pp 240.

Singapore Year Book 1968 : A Ministry of Culture Publication; Pp 406; Price $ 5.

The International Monetary Fund 1945-65 (*Twenty Years of International Monetary Cooperation*): Volume I by J. Keith Horsefield and Volumes II & III edited by J. Keith Horsefield; Published by the International Monetary Fund, Washington D.C., 20431 USA; Vol I : Chronicle, Pp 663, Price $ 5; Vol II : Analysis, Pp 621, Price $ 5; Vol. III: Documents, Pp 549, Price $ 5; Price for a set of three volumes $ 12 50.

Prospects of 'Gujarat-67' Cotton as an Import Substitute: S.P. Kashyap, Indian Institute of Management; Balgovind Prakashan, Gandhi Road, Ahmedabad-1; Pp 150; Price Rs 20.

Impact of the Changes in the District Administration Since Independence on Kheda District: Prof. Manubhai M. Shah; Sardar Patel University, Vallabh Vidyanagar, Gujarat; Pp 200; Price Rs 7.

Modern Marketing Management in the Indian Context: Rustom S. Davar; Progressive Corporation Private Ltd, Davar's College Premises, 51 Mahatma Gandhi Road, Flora Fountain, Bombay-1; Pp 632; Price Rs 37·50.

Direct Taxes (*An International comparison*) : Published by the Federation of Indian Chambers of Commerce and Industry ;Pp. 128; Price Rs 22·50.

RECORDS AND STATISTICS

The Patents Bill, 1967

(Draft Report of the Joint Committee)

GREAT INTEREST attaches to the Patents Bill, 1967, which was referred to a Joint Committee of both Houses of Parliament in August 1968. The report of this committee was presented to Parliament on February 27. It included a number of recommendations concerning the royalty and other remuneration payable on patented articles. Full text of the report follows :—

I, the Chairman of the Joint Committee to which the Bill to amend and consolidate the law relating to patents was referred, having been authorised to submit the report on their behalf, present their Report, with the Bill as amended by the Committee, annexed thereto.

2. The Bill was introduced in Lok Sabha on the 12th August, 1967. The motion for reference of the Bill to a Joint Committee was moved in Lok Sabha by Shri Fakhruddin Ali Ahmed, Minister of Industrial Development, Internal Trade and Company Affairs, on the 9th August, 1968. The motion was discussed and adopted on the 13th August, 1968.

3. Rajya Sabha discussed, and concurred in the said motion on the 26th August, 1968.

4. The message from Rajya Sabha was read out to the Lok Sabha on the 28th August, 1968.

5. The Committee held twenty-nine sittings in all.

6. The first sitting of the Committee was held on the 5th October, 1968 to draw up a programme of work. The Committee, at this sitting, decided that a Press communique be issued advising individuals, public bodies, business organisations and other associations who were desirous of presenting their suggestions/views or of giving evidence before the Committee in respect of the provisions of the Bill, to send written memoranda thereon by the 5th November, 1968.

7. Fifty-one Memoranda/representations on the Bill were received by the Committee from different associations/individuals.

8. At their second sitting held on the 25th November, 1968, the Committee decided to visit not only the pharmaceutical units but also the units of other industries, both in public and private sectors, in the field of chemicals, ceramics, petro-chemicals, electronics etc., so that the Members might be equipped with first hand information about the working of the patents and in what way proposed legislation, could be suitably improved and modified.

9. The Committee divided itself into several groups and visited certain industrial units, research institutes etc. located at Lucknow, Rishikesh, Bombay, Baroda, Poona, Calcutta, Asansol and Hyderabad. At these places the Members of the Study Groups of the Committee saw the working of these industrial units and elicited information regarding the patents and likely impact of the proposed legislation on the working of these units.

10. At their sittings held on the 17th, 20th, 21st, 22nd, 23rd, 24th and 25th January, 14th, 15th February, 17th, 18th, 19th, 20th, June, 16th, 17th 18th, 19th and 26 July, 1969 respectively, the Committee heard the evidence given by 35 Associations/Individuals. At their sitting held on the 29th January, 1970, the Committee heard the views of the Attorney General of India on the Constitutional validity of clause 48 of the Bill.

11. The Committee have decided that the evidence given before them should be printed and laid on the Table of both the Houses.

12. The report of the Committee was to be presented by the first day of the second week of the winter Session of the Lok Sabha i.e. by the 18th November, 1968. As this could not be done, the Committee requested for extension of time up to the 31st March, 1969 which was granted by the House on the 18th November, 1968. Again, on a request being made, the House granted extension of time for the presentation of the report up to the last day of the monsoon Session of Lok Sabha (1969). Again the time was extended up to the first day of the second week of the winter Session (1969). Since clause by clause consideration of the Bill could not be taken up it was not possible for the Committee to present their report by the scheduled date. Accordingly the Committee sought another extension up to the first day of the third week of the Budget Session (1970). This was granted by the House on the 17th November, 1969.

13. The Committee considered the Bill clause by clause at their 25th, 26th, 27th and 28th sittings held on the 27th, 28th, 29th and 30th January, 1970, respectively.

14. The Committee considered and adopted their Report on the 20th February, 1970.

15. The observations of the Committee with regard to the principal changes proposed in the Bill are detailed in the succeeding paragraphs.

16. *Clause* 2. (i) *Sub-clause* (1) (g). The definition of "food" covered only substances intended for the use of babies, invalids or convalescents as an article of food or drink. The Committee feel that the definition should cover all articles of nourishment as well. The definition has been amended accordingly.

(ii) *Sub-clause* (1) (h). The Committee consider that not only the Council of Scientific and Industrial Research but also institutions financed wholly or for the major part by that Council should be treated as government undertakings. At the same time the Committee feel that having regard to their constitution and functions universities and other institutions for scientific or technical education financed by the Government should not be treated as "Government undertakings." The definition of 'Government undertaking' has been amended accordingly.

(iii) *Sub-clause* (1) (i). The definition of "medicine or drug" expressly excluded insecticides, germicides, fungicides and other substances intended to be used for the protection or preservation of plants from its scope. The Committee feel that in the interests of development of agriculture the provisions included in the Bill in respect of inventions in the field of food, drugs and medicines should apply also to all inventions in the field of insecticides' germicides etc. The definition of "medicine or drug" has, therefore, been amended accordingly.

17. *Clause* 3 (d). This clause has been amended to make the intention underlying therein more clear.

18. *Clause* 5. The Committee feel that in the case of inventions claiming "substances which are intended for use or capable of being used as food or as medicine or drug" and substances prepared or produced by chemical processes (including alloys, optical glasses, semi-conductors and inter-metallic compounds) no patent shall be granted in respect of the substances themselves and that patents may be granted only in respect of the methods or processes of manufacture of such substances. This clause has been amended accordingly.

19. *Clause* 8 (1) (b). The Committee feel that the period of eight weeks provided for submitting information regarding applications for patents made outside India is too rigid and that the time limit may be prescribed by rules. The clause has, therefore, been amended accordingly.

20. *Clause* 9. The amendments are of a drafting nature.

21. *Clause* 10(5). The Committee feel that generic claims for processes for preparation of substances specified in Clause 5 should not cover multiplicity of processes within their scope and that such claims should relate only to a single method or process of manufacture. The clause has been amended accordingly.

22. *Clause* 11 *and* 12. The Committee feel that the provison for specifying priority dates of claims in the complete specification does not serve any useful purpose and would on the other hand cast an unnecessary burden on the Patent Office, Sub-clause (2) of clause 11 has, there-

fore, been omitted. Other amendments to the clauses are of a consequential nature.

23. *Clause* 25 (1) (d). The Committee feel that only prior public knowledge or prior public use and not mere knowledge or use, of an invention in India should operate as an objection to the grant of a patent for the invention. The sub-clause has been amended accordingly.

24. *Clause 45*. The Committee note that there are a large number of applications for patents in the field of food, drug and medicine, action on which was held in abeyance in pursuance of the directions of the Central Government to the Controller under sub-rule (3A) of rule 47 of the Defence of India Rules, 1962 and subsequently under section 73C of the Indian Patents and Designs Act, 1911. The Committee feel that as action on these applications has been delayed by Government directions some provision should be made so as to ensure that patents sealed on pending applications have their normal term. Accordingly a proviso has been added to this clause stipulating that the date of the patent on any pending application shall be the date of filing of the complete specifications or the date of the commencement of the new Patents Act, whichever is later.

25. *New Clauses 47 and 48. (Original Clauses 48 & 47)*. The Committee feel that the provisions of original clause 48 may be confined to future patents and may be recast as conditions of grant of future patents to ensure their constitutional validity. Original Clause 48 has been recast accordingly as new Clause 47. Necessary modifications consequent to the new Clause 47 and the amendments to Clause 5, have been made in the existing Clause 47 which has been transposed as new Clause 48.

26. *Clause 53*. (i) *Sub-clause* (1). The Committee feel that the term of 10 years provided for patents in the field of food, drug and medicine is too long and should be reduced to 7 years. The sub-clause has been amended accordingly. The other change made in the sub-clause is consequential to the amendment made in clause 5.

(ii) *Sub-clause* (2) The Committee feel that the term of patents granted under the Indian Patents and Designs Act, 1911 should not be curtailed. This sub-clause has, therefore, been omitted.

27. *Clause* 64. (i) *Sub-clause* (1) (*e*), (*f*). The Committee feel that public knowledge or public use (and not mere knowledge or use) in India of an invention before the priority state of a claim should be a ground of revocation. The sub-clauses have been amended accordingly.

28. *Clause* 68. This clause provides a period of six months for the registration of documents relating to assignment of a patent, mortgage, licence or creation of any other interest therein, from the date of execution. In the case of such documents executed before the commencement of the new Act, the said period may have already expired wholly or partially. The Committee therefore feel that the period of six months should be computed from the commencement of the new Act or the date of execution of the document whichever is later. The clause has been amended accordingly.

29. *Clause* 73 (2). Sub-clause (2) has been revised in order to ensure proper administration of the new Patents Act and the efficient functioning of the Patent Office.

30. *Clause* 87 (1) The Committee feel that patents referred to in this clause should be deemed to be endorsed with the words "Licences of right" only after a period of three years from the date of sealing so that the patentee may have an opportunity to exploit his invention to his best advantage. Accordingly, the Committee feel that patents granted under the Indian Patents and Designs Act, 1911 should be deemed to be endorsed with the said words from the commencement of the new Act or from the expiration of three years from the date of their sealing, whichever is later. Patents granted under the new Act should be deemed to be endorsed with the words "Licences of right" from the date of expiry of three years from the date of their sealing. The sub-clause has been amended accordingly.

31. *Clause* 88. The Committee feel that royalty and other remuneration of four per cent of the net ex-factory sale price in bulk of the patented article provided for in this Clause should be enhanced to five per cent. The Committee was assured that the five per cent was only by way of ceiling and that the royalty would actually be fixed on the merits of each case by the Controller. Sub-clause (5) of this clause has been amended accordingly.

(ii) The other changes made in the clause are of a consequential nature.

32. *Clause* 90 *(a) (ii)*. The Committee feel that it would be unfair to penalise a patentee for his failure to manufacture the patented article on a scale adequate to meet the requirements of a market which is not actually existing but which is capable of being created. The Committee therefore, feel that the words "or such market capable of being created is not created" occurring in the clause should be omitted. This clause has been amended accordingly.

33. *Clause* 93. The Committee feel that the Controller should exercise the powers conferred on him under sub-clause (3) only for reasons to be recorded in writing. The clause has been amended accordingly.

The changes made in sub-clause (5) are of a drafting nature.

Sub-clause (6) has been omitted as unnecessary in view of clause 116 (2).

34. *Clause* 99. (i) The Committee feel that only "Government Undertakings" as defined in Clause 2 (1)(h) should be entitled to use inventions as contemplated in Chapter XVII. The Committee did not approve of any other undertaking using inventions in the manner provided in the Chapter.

(ii) As the conditions specified in new Clause 47 do not apply in respect of any machine, apparatus or other article or any drug or medicine covered by a patent granted before the commencement of the new Act, the Committee feel that a specific provision may be made in this Clause to provide for importation of such articles or the importation and distribution of such drugs or medicines. This will ensure that Government may, if the need arises, import such articles, medicines or drugs for the same purposes as under new Clause 47 but subject to the obligation to pay compensation. The Clause has been amended accordingly.

35. *Clause* 100. The Committee feel that the royalty or compensation to be paid in respect of use of inventions in the field of food, drug and medicine should be subject to the same ceiling as is provided in the amended subclause (5) of Clause 88. Sub-Clause (3) of this Clause has been amended accordingly. The other changes made in the Clause are of a drafting or consequential nature.

36. *Clause* 107. The Committee feel that by way of caution it should be provided that the making, using or importation of any machine, apparatus or article or the using of any process or the importation, use or distribution of any medicine or drug in accordance with the conditions specified in new Clause 47 should be made a ground of defence in actions for infringement. The Clause has been amended accordingly.

37. *Clause* 116. *Sub-Clause* (2). The amendment is intended to provide appeal from the Controller's decision under sub-clause (3) of Clause 88 to lie to the High Court.

38. *Clause* 144. The Committee feel that provisions of this Clause regarding disclosing the result of search made under Clause 13 in respect of an application for patent to any person may be abused. The Committee therefore feel that the proviso to this Clause may be omitted. The Clause has been amended accordingly.

39. *Clause* 146. The Committee feel that it will be of great advantage if information regarding working of patented inventions on a commercial scale is collected and published from time to time. Accordingly the Committee feel that provisions should be made in this Clause for imposing an obligation on patentees and licensees to furnish such information and on the Controller to publish such information periodically. The Clause has been amended accordingly.

40. *Schedule*. The amendments made are of a formal or consequential nature.

41. The amendment to the Enacting formula is of a drafting nature.

42. *Clause* 1, *sub-Clause* (1). The amendment is of a drafting nature.

43. The Joint Committee recommend that the Bill as amended may be passed.

RAJENDRANATH BARUA
Chairman,
Joint Committee.

New Delhi,
The 20th February, 1970.

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Printed and Published by R. P. Agarwala, on behalf of the Eastern Economist Ltd., United Commercial Bank Building, Parliament Street, New Delhi, at the New India Press, Connaught Circus, New Delhi.
Editor : V Balasubramanian
Registered at the G.P.O., London, as a newspaper

March 13, 1970 **BUDGET NUMBER** RUPEES FIVE

GORDON
WOODROFFE & CO.
(MADRAS)
PRIVATE LTD.
MADRAS.
Exporters of
East India Tanned leathers.

The name of Gordon Woodroffe has been known and respected in India for over a hundred years. It was in August, 1868, that Mr. G.W.P. Woodroffe started trading in Madras and, from small beginnings, built up a successful business as an East India Merchant. A branch of the firm was opened in London and manufactured goods of various descriptions began to move from Britain to India while many varieties of South Indian produce were moving in the opposite direction from Madras to Britain. Over the years, the firm carried on many, if not all, the activities of East India Merchants and in 1925 the partnership was divided into two private limited liability companies, one in London and one in Madras.

By this time, Gordon Woodroffe & Co. had long been established in the export trade of semi-tanned Hides and Skins from Madras and, foreseeing perhaps that changes were bound to come, they began to think seriously about industrialization. It was not surprising that their first venture in this new field should be concerned with leather, and on the 11th October, 1928, Gordon Woodroffe Leather Manufacturing Co. Ltd. was formed as a subsidiary Company with the main object of tanning, dressing and finishing leather for export. New machines, new methods and new processes have been introduced, production has been expanded almost to the point of maximum capacity and there can be few single units today which successfully produce so many varieties of leather. Box and willow leathers made from Indian cowhides are exported to the United Kingdom. Imported hides are processed in various ways for export, indigenous hides are tanned and finished for the Indian market, particularly for the manufacturers of shoes for export, and mechanical and industrial leathers are produced for the manufacturers of textile accessories, leather belting and cycle saddles. This subsidiary is now merged with the parent company as one of the divisions of Gordon Woodroffe & Co. (Madras) Private Ltd.

GORDON
WOODROFFE
LEATHER
MANUFACTURING DIVISION
PALLAVARAM, MADRAS.
Chrome and vegetable tanners
manufacturers of
box and glace kid leathers.

TULLIS
WOODROFFE & CO., LTD.
MADRAS.
Manufacturers of
Industrial
and Textile leathers

In 1953, the parent Company formed a new subsidiary, Tullis Woodroffe & Co. Ltd., in collaboration with John Tullis & Son Ltd. of Glasgow to manufacture picking bands for textile looms and a wide variety of industrial leather accessories.

In 1959, a third Company, Fenner Woodroffe & Co. Ltd., was formed in association with J. H. Fenner & Co. (Overseas) Ltd. of Hull to manufacture leather belting and allied lines. In 1967, the parent Company acquired the whole interest and the name has been changed to Gordon Woodroffe (Belting) Private Ltd.

GORDON
WOODROFFE
(BELTING) PRIVATE LTD.
MADRAS.
Manufacturers of
Leather Belting

GORDON
WOODROFFE ENGINEERS LTD.
Madras.
Manufacturers of
Collets and Feed Fingers
(Round, Hexagon and Square)
Conforming to International
Specifications.

In 1964, Gordon Woodroffe Engineers Ltd. was formed in technical collaboration with Crawford Collets Ltd., U.K. to manufacture COLLETS and FEED FINGERS.

EASTERN ECONOMIST

BUDGET NUMBER 1970

VOL. 54, No. 11 MARCH 13, 1970

THE BUDGET IN PERSPECTIVE

BUDGET DOCUMENTS

ANNUAL SUBSCRIPTION

INLAND : Rs 85.00
FOREIGN : £7-0-0 or $17-00
Airmail & Advertisement Rates on Enquiry.

REGISTERED OFFICE

UCO Bank Building, P. Box 34, Parliament Street, New Delhi-1.

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United Commercial Bank Bldg, 359, Dr Dadabhoy Naoroji Road, Bombay.

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The Budget and the Prime Minister

THE EDITOR

As I studied the reactions of certain politicians and some businessmen (which were reported in the press) to the central budget for 1970-71, or went through the post-budget editorials in some of the newspapers, I caught myself wondering whether these commentators were really talking about the budget proposals which the Prime Minister (and Finance Minister) had presented to Parliament on February 28 this year. Mrs Indira Gandhi, I was informed, had earned credit and congratulations for achieving the difficult goal of promoting both economic growth and social justice at one master-stroke. She, it was suggested, had somehow managed to produce a production-saving-investment oriented budget, while incorporating in it, at the same time, the elements and instruments of a socialist programme. This, however, was not the impression that I myself had received from going through the budget papers immediately after they were presented. A second and a more leisurely reading, subsequently, I am sorry to say, has still left me unconvinced that these newspapers or other commentators were dealing with the realities of this budget.

Now, far be it from me to decry the various extensions of the small savings scheme or the tax concessions in respect of savings which have been introduced into the structure of the income-tax or the wealth tax. The Prime Minister, I am sure, has thought of these attractions for the saver with high hopes and the best of intentions. But, then, let us, for a moment, look facts in the face. So far as the risk or other investment capital for the private sector is concerned, that part of it which is drawn directly from private savings, as distinct from institutional finance, has to come from that section of the people which, besides being motivated to save, has also the ability to save. Quite clearly persons answering to this description are to be found, in the main, among the urban higher middle class.

It does not follow that other, less well-placed sections of the population do not save at all. They do save to some extent. But, by and large, they do not save in order that they may invest. Their savings essentially are for a rainy day and, regrettably enough, rainy days tend to be rather frequent in their existence. This apart, there are the periodical calls of marriages in the family and other occasions for special expenditure which tend to liquidate their savings at more or less regular intervals. So far as systematic, consistent and investment-oriented saving is concerned, it is clear that only people in the higher brackets of incomes, who happen to have both the willingness and the capacity, save and invest to any significant extent. It is, no doubt, a disagreeable thought that the bulk of the middle class does not qualify as steady and sustained savers, but given the high and rising level of prices or the legitimate priority which a certain improvement in the standard of living has come to enjoy in the calculations of domestic budgeting of individuals or households, this must be accepted as an inescapable situation.

Given these circumstances, a budget which makes such a fierce onslaught on incomes above Rs 40,000, whatever the merits it may have, certainly cannot be credited with the virtue of being saving-and-investment oriented. It would be reasonable to assume that practically every extra rupee of government revenue that may be secured through the proposed additional taxation of the incomes in question would be a rupee withdrawn from the saving and investment potential of this section of the population. In the process, it is the availability of capital for industry in the private sector that is likely to be most severely hit, since the main source of non-institutional finance for the corporate sector is to be found in the voluntary savings of higher income groups.

It may be argued that the proposed income-tax concessions relating to savings should help to soften the adverse fiscal impact on the capacity of the higher income groups to save, but the possible relief on this account will be less than may be apparent on the surface, since the tax concessions in question have been designed, in part, to spread their attraction over a wide range of investment forms, including bank deposits and government securities. Strictly from the point of view of investment in industry in the private sector, the meaning and value of these concessions will have to be evaluated with great circumspection.

The argument that this budget places the accent on the promotion of saving and investment and therefore economic growth, becomes even more untenable

when the Prime Minister's proposals relating to the wealth tax are concerned. She herself has had the candour to state that the purpose of this part of her budget proposals is to aid and abet her measures relating to income-tax in discouraging incomes and wealth beyond certain levels. Mrs Gandhi, in fact, has said in so many words that the combined effect of her proposals relating to the income-tax and wealth tax would be to place an effective ceiling on incomes above Rs 25,000 where such incomes are wholly unearned, i.e., derived solely from the holding of property in one form or another.

After the proposed increases in the rates of wealth tax and the rates of the special tax on urban land and buildings, the combined levy on property, when account is also taken of the increase of income-tax on higher slabs of income, would amount to a recurrent capital levy. This is because the aggregate tax liability may exceed the income of the assessee from his properties, after allowing for expenses of management, maintenance, depreciation or other obligations. This, of course, is a general statement and the degree of hardship suffered by individual assessees will, of course, vary according to their respective circumstances. The thrust of the Prime Minister's fiscal policy, however, is clear and its direction is not to be mistaken for other than what it is, which is towards the positive and progressive dismantling of individual wealth through a recurring capital levy.

Negative Circumstance

Some commentators, including a few from the business world, have tended to attach exaggerated importance to the purely negative circumstance that the Prime Minister has refrained from imposing new levies on the corporate sector. A good deal of the pre-budget speculation tended to concern itself with the possibility of bonus shares being discouraged or dividends being curbed. There was even a scare about the likelihood of a capital levy being imposed on company assets. Broadly speaking, there was general apprehension that corporate earnings would attract new fiscal penalties in some form. It is but natural that there should have been some relief however in business or investment circles when these fears were not borne out.

Relief, however, is one thing, while uncritical complacency is quite a different thing. There has been an unwarranted disposition on the part of many people to draw from the Prime Minister's forbearance on the present occasion the inference that she has realised that the corporate sector can be fiscally exploited further only at the risk of industrial expansion being held up. I personally see no reason for believing that this reading faithfully represents the working of the Prime Minister's mind. It seems to me that, if, on the present occasion, she has chosen to concentrate her effort in the direct tax field on personal income and wealth, it is simply because such a move has offered her the most immediate as well as the most striking political advantages. The government's political attitudes being what they are and its need for additional revenue being a continuous one, it would be surprising, indeed, if next year the sharp edge of direct taxation is not turned against the corporate sector. The point I desire to make here is that, so long as the central government stands committed to its present political approach or obligations, it will be labouring under a continuous urge to squeeze incomes and wealth above a steadily falling level of relative safety against such fiscal exploitation, regardless of the adverse implications of such a budgetary policy for economic growth.

Frightening Aspects

Indeed, the most frightening aspect of this budget, in my view, is the Prime Minister's implied rejection of the notion that expropriatory personal taxation may have an adverse bearing on the ability and willingness to save and invest or the impulses of initiative and enterprise. Mrs Gandhi is clearly acting on the impression that an individual's enjoyment of his personal income or the scope left to him for possessing or disposing of wealth could be curbed to any extent she chooses without such a fiscal policy damaging, in any way, the attitudes of men and women towards work, saving or investment. It is true, of course, that the Prime Minister is not the only person who is disposed to think along these lines and that there are others. However, such experience as we have, in historical or contemporary terms, of the functioning of what may be called free societies, does not seem to lend support to their view.

The progressive impersonalisation of the functions of saving and investment must, in due course, find their logical expression in the conversion of such free societies to a totalitarian politico-economic order which is identified with certain ideologies. But even countries which have opted for or rather have been overtaken by that particular political destiny are apparently discovering through the painful processes of economic stagnation and social frustration that personalised incentives cannot be banished from any productive apparatus without damage to its dynamics of growth. By hitting indiscriminately at the ability and willingness to save of those sections of the population who have demonstrated or are demonstrating their capacity to generate investible resources through the exercise of entrepreneurial skills, business judgment or professional or technical talents, the Prime Minister, in my opinion, is not only creating a hostile environment for the emergence of new industries, but also a psychological as well as an economic climate with a built-in animus against the progress of new entrepreneurs and managers. A fiscal policy which is pregnant with such results can have no pretence whatsoever to being an intrument of economic growth or of its creatures — social justice or welfare.

II

Among the merits claimed for this budget is that it has made a bold bid for social justice and social welfare as important ingredients in the development process and thereby befriended the common man to an extent not attempted in any previous document of this kind. It is rather strange that this argument should have been put forward at all. For some time now, the prices of essential commodities as well as the general price level have been going up. In particular years, the spurt in prices has been substantial and over the period generally there have been steadily increasing pressures on living standards through repeated increases in the cost of living. In the circumstances, a budget which claims to be a compassionate budget or a budget for the common man will be justified in its pretensions only if its policies and proposals hold out a reasonable expectation that the cost of living would be kept relatively stable, if not brought down.

At a later stage of this discussion, I shall deal with the larger question whether this budget is inflationary and, if so, to what extent. Here I would point out that, so far as the fiscal programme of the budget is concerned, it contains no concessions of any kind with regard to the existing level of excise taxation and to this extent it has made no contribution towards bringing down the price level or the cost of living. Those who may be disposed to assert that this budget has eased the lot of the common man must be sternly told that the budget has not reduced any of the existing rates of central excise which, in some cases, are certainly very high, on essential articles of daily consumption.

The exemption limit of income-tax, it is true, is now proposed to be fixed higher at Rs 5,000 as against the present

exemption limit of Rs 4,000 rising to Rs 4,800 on account of personal allowances, with assessees who are married and have two or more children qualifying for the maximum benefit under this provision. The proposed exemption limit, which will be uniform in its application to all non-corporate assessees, will certainly confer a substantial benefit on assessees who are unmarried and who, under the present dispensation, are entitled only to an exemption limit of Rs 4,000. For other assessees, who are married and have a child or children, the gain will be smaller. At present a resident Hindu individual, married and with two or more children, having a total income not exceeding Rs 10,000 and supporting a dependent parent or grand-parent, receives a further deduction from his tax apart from the other deductions on account of personal allowances so that, in his case, no tax is payable on the first Rs 5,100 of his total income. Since it is now proposed to stop all deductions from tax on account of personal allowances in view of the new exemption limit being fixed at Rs 5,000, those now enjoying the dependent parent allowance will be slightly worse off in the future as only the first Rs 5,000 of their total incomes would enjoy exemption from income-tax and not Rs 5,100, as at present.

Substantial Beneficiaries

The only substantial beneficiaries from the change would be assessees who are unmarried, since the tax benefit in their case would be Rs 137.50. Assessees who are married and have two or more children stand to gain the least, the tax saving in their case being only Rs 11. Assessees falling within this category would constitute the greater part of the 500,000 persons whom the new exemption limit may be expected to release from liability to income-tax. As a blow struck in a right course, viz., family planning, the proposal for revising the exemption limit may deserve commendation. But it surely does not go very far as a measure of relief to the middle class or the lower middle class, especially when allowance is made for the fact that some of the increases in the central excise duties proposed in this budget are related to articles of daily consumption of middle class or even lower-middle class families. What may, at best, be claimed for the proposed revision of the exemption limit for income-tax is that, besides its relevance to family planning, it may help to provide partial — and, in many cases, only notional — compensation to the urban middle class against the impact of the increased central excise duties proposed to be levied on certain goods.

The emphasis, here, is on the word "partial" for, although Mrs Gandhi has pleaded that her proposals relating to central excise taxation have been framed so as to avoid placing new burdens on the less well-to-do sections of society, some of the increases in commodity taxation proposed by her are bound to affect all classes of the people, including the less well-to-do. This is clearly true of the higher duties relating to tea, sugar and cigarettes. The budget has gone through the virtuous motion of confining the increases in the duties on cigarettes to superior varieties, while in the case of sugar the increase in duty is virtually restricted to free-market sugar. The argument is that duties thus circumscribed are not likely to affect the less well-to-do consumers who, in the case of tea and cigarettes, may be presumed to be disinterested in the superior qualities of these commodities and who, in the case of sugar, have the option of restricting their consumption to "levy" sugar, which is sold through fair price shops and in the case of which the central excise duty has been left practically untouched.

Flaw in Reasoning

The flaw in all this reasoning is that, since cigarette manufacturers are free to readjust the prices of various brands, they may well decide to distribute the burden of the excise duty over the entire range of their production, if this is what their market strategy demands. As a matter of fact, something like this has always been happening and there is no doubt that the impact of the increased central excise duty on cigarettes will be felt on the prices of all brands of cigarettes and not merely on the prices of the superior brands. This is even more true of tea where a good deal of tea is marketed after being blended.

The Prime Minister and her advisers in the Finance Ministry must be naive indeed to believe that the less well-to-do consumers will not be affected by the increase in the central excise duty on tea or that a cup of tea at the wayside tea shop will continue to sell at the same price as before the budget despite the higher central excise imposts on sugar and tea. Incidentally, it is worth noting that tea, sugar and tobacco are articles which undoubtedly enter into the common man's consumption and it will not therefore be idle to speculate that, had the circumstances of the cotton textile industry permitted it, Mrs Gandhi might not have hesitated to increase the central excise duty on cotton cloth, little caring what the common man might think of it.

So far as the taxation proposals go, then, the common man has not been very much in the picture. No relief has been given to him in the form of any reduction in central excise duties on essential articles of consumption. On the contrary, some of the increases in duties now proposed may impose a heavier burden on his domestic budget.

What he has gained, principally, is psychological satisfaction of sorts. By sharply increasing the rates of income-tax on higher slabs of income, the rates of wealth tax and the rates of the special tax on urban land and buildings and thereby "soaking" the rich, the Prime Minister has perhaps made it possible for the less well-to-do sections of the community to draw comfort, if they would, from the discomfiture of the affluent. This, no doubt, is social justice of a kind. What relevance this has to social welfare is, of course, a different issue.

Mere Window Dressing

Included in the packet of budget papers is a memorandum entitled, "Towards Growth With Social Justice". This gives an outline of some programmes included in the budget for 1970-71 with a view to improving the living conditions of the less-privileged or the more vulnerable sections of the community. These programmes have been described as "new initiatives for the well-being of the needy and the poor in the shape of schemes for small farmers and agricultural labour, nutrition programmes for pre-school and school children, housing and urban development, rural drinking water supply and social security benefits for industrial workers and government employees".

I may be pardoned for suggesting that this is mere window-dressing. After all, from the first five-year Plan onwards there have always been programmes in the field of community development or social welfare. These programmes had naturally been framed with a view to meeting the special requirements of, or conferring special benefits on those sections of the community who may be deemed to be in need of such attention. Year after year, financial provisions have been made for these

What's Parkinson's law of delay ?

fields. It would be worth noting that such welfare-oriented development activity is being carried on by or through the state governments as well as the central government. If certain new programmes relating to this field are being proposed for the new financial year and if financial provisions are made for them in the central budget for 1970-71, the process can hardly be advertised as some kind of a socio-economic revolution.

The measures for social security and other benefits for industrial workers and government employees, included in the budget, for instance, are essentially extensions of what is being attempted already and no special credit is due to the Prime Minister for having had the generosity to take a few more steps in this direction. A great deal of emphasis has been placed on a programme for improving the condition of dry land farming. Now, far be it from me to minimise either the social or the economic importance of stabilising agricultural operations and yields on lands which have no assured supply of water and which have to look to uncertain, uneven and generally meagre rainfall for their sustenance. But it is surely too much to claim that dry farming has not been known or practised before the "new Congress," of which the Prime Minister is the leader, thought of it or began talking about it.

Propaganda Fanfare

Dry farming is no more the invention of our radical politicians than the multiplication table is that of the village school master. Our agricultural development programme has been passing through various phases. Over a period, the emphasis has been on intensive agriculture in irrigated areas where quick increases in yields or production could be expected. It is now quite legitimate to bring into the sweep of the nation's agricultural effort measures for the conservation of soil or water in regions wholly or substantially dependent on the rainfall. Surely, these purely technical changes in agricultural policy can be effected without any fanfare of propaganda designed to squeeze political benefits out of the gullibility of the public. The need for the government observing a certain measure of decency or dignity in self-advertisement is all the more apparent from the fact that, in the case of many of the welfare schemes, such as, for instance, the nutrition programme for children, the financial provisions, as Mr Asoka Mehta has pointed out, are ridiculously low, thereby casting doubt on the *bona fides* of their sponsors.

My submission, then, is that in terms of hard facts or figures, this budget is certainly no great leap forward towards a world in which the common man may be said to have come into his own.

III

The question whether the economic policies and fiscal proposals of this budget will have an inflationary effect on the economy is one which, as I have suggested earlier, concerns the common man much more intimately than any reliefs or other benefits that may have been extended to him. It is however not only the common man who is concerned with the issue of inflation but the entire public which has a stake in the political stability, social integrity and orderly economic progress of the nation.

The theme of inflation has perhaps acquired an increased urgency at the present time. Over a period of 12 months, the wholesale price index has moved up by more than seven per cent. Simultaneously, quite a few critical shortages of goods have made their appearance. With the growth of employment opportunities lagging behind the growth of population, these trends in prices and supplies are tending to make life unpleasant and hard all round. Public opinion is therefore extremely sensitive to intimations of inflation.

Now, it has been the hard experience of the people of this country that, with the arrival of every new financial year, the economic burdens borne by all classes of the community have tended to pile up. This continuous sacrifice which has been imposed on the public has been sought to be justified as the legitimate cost of the five-year Plans of economic development. The public, however, is only too wise to the fact that a good deal of the additional resources, diverted from private ownership or spending to the coffers of the government, has been absorbed by increases in administrative expenditure, while another large part of such resources has been consumed in wasteful or infructuous expenditure in the name of development.

This being the case, the citizens of this country would naturally demand that the central budget presented by the Prime Minister for 1970-71 should present some convincing evidence that the additional resources it seeks will be raised and spent in a non-inflationary manner. I am not sure that Mrs Gandhi is in a position to pass this test. To the extent that her budget has an economic strategy as distinct from political tactics, it is that the present state of the economy warrants an injection of purchasing power which would raise aggregate demand to a higher level and thereby enable several industries to improve their utilisation of installed capacity and step up their production. Additionally, it has been argued that increased government spending on economic and social overheads or the infrastructure would, besides stimulating current production, also strengthen and promote impulses of long-term industrial expansion and economic growth.

There is, no doubt, some substance in this argument although I am inclined to believe that it is not the aggregate money supply but the effective demand for particular products which needs a little doctoring at present. What really bothers me, however, is that the government has always been more adept at spending freely rather than spending wisely. In the circumstances, I have serious doubts whether an increase in the level of public spending, as has been proposed in the budget, will be a wholly constructive influence on the level of economic activity; the risk of merely inflationary spending cannot be ignored.

Disquieting Features

The central budget, indeed, has a number of disquieting features from this point of view. In the current financial year, the budget estimate of deficit financing at about Rs 254 crores has been converted into the revised estimate of Rs 290 crores. The budget estimates for the new financial year show deficit financing at about Rs 225 crores. There is no ground for believing that this figure also will not be surpassed by the actuals in due course. Considering the steady deterioration in the technical standards of budgeting and the continuous political pressures on the government to live beyond its means, it would be a reasonable expectation that the government will normally be compelled to resort to deficit financing to a greater extent than it is willing to concede in the first instance. Also of relevance here is the fact that prices are on a rising curve.

The central government budgeted for a total civil expenditure of Rs 1,857 crores on both revenue and capital account in the current financial year. It is now expected that the amount would be higher at Rs. 1,891 crores. For the new financial year, the budget provision for civil expenditure on both revenue and capital account is Rs 2,023 crores. Even in the unlikely event of the actual expenditure not going beyond this level, there will be a substantial increase in civil expenditure which is in the nature essentially of consumption expenditure. Defence expenditure, which has been raised from Rs 1,115 crores in the revised estimates for 1969-70 to Rs 1,152 crores in the budget esti-

mates for 1970-71, follows the same trend.

Here, I may also refer to the disclosure by the Prime Minister in her budget speech that she is providing Rs 170 crores to cover the gaps in the resources of certain states. This would mean that the revenue deficits of these states are sought to be made good through a subvention from the central government. When all these increases in the expenditure of the central government, viz., higher provisions for civil administration and defence and the special provision for covering the deficits of some state governments are taken into account, it is clear that there will be a very large element of inflationary spending in the disbursements from the central exchequer which have been projected for the new financial year.

Depressing Voluntary Saving

A similar inflationary risk seems to inhere in the government's programme for raising resources in the new financial year. As I have pointed out earlier, the entire parcel of proposals relating to direct taxes is designed to cut into the income or wealth of those sections of the community which have a high propensity to save and invest. The transfer of resources from this part of the population to the coffers of the government the expenditures of which are inclined to be consumption-oriented is surely likely to have an inflationary effect. In other words, the fiscal policy adopted in this budget may depress voluntary savings more than it may build up public savings.

The position is not improved in any manner by the scheme of indirect taxation adopted in the budget. The various proposals for commodity taxation are such that they will push up the prices of particular commodities without exerting any appreciable deflationary pressure on the volume of aggregate demand. In this context, a reference to the Railway budget is relevant. Especially after the Railway Minister's surrender on the issue of the proposed increases in fares for third class travel, the scheme of fare and freight increases will operate, in the main, to push up costs. It is also worth pointing out that the increases in the tariffs of the Posts and Telegraphs Department, which are intended to narrow the gap between the receipts of this department and its continuously rising operating expenses, will add not inappreciably to the costs of business.

With repayments on market loans running at a lower level in 1970-71 than in 1969-70, the government's gross borrowings at Rs 455 crores in the budget year would also be less than its gross borrowings in the current financial year. Nevertheless, the net borrowings will be higher at about Rs 162 crores as against a little above Rs 141 crores in the current year. This would certainly be a welcome development. Unfortunately, it is not possible to infer from this that the government's borrowing programme will necessarily make a large disinflationary contribution. This is because of the fact that, in view of the government's declared policy of utilising the resources of nationalised banks for supporting a rising level of public expenditure, it is not possible to say what part of the increased market borrowing would only be, in the event, another form of deficit financing through the expansion of bank credit to government. Rather more respectable in its pretensions to be non-inflationary is the small savings target. The budget assumes credit for Rs 140 crores for small savings as against Rs 125 crores in the current year. The projected increase however is relatively small and its deflationary effect should be correspondingly inconsiderable.

Industrial Activity

Ultimately, what would decide whether the year 1970-71 is going to be a year of increasing inflation is, of course, the level of productive activity in the industrial sector. I am aware, of course, that so far as agricultural production is concerned, there is scope for expecting that an increased output of foodgrains may be depended upon to relieve an excess of pressure on the price level. It would be a mistake, however, to exaggerate the dimensions of this disinflationary factor. Despite an increase in the production of foodgrains, their prices are bound to remain high due to a variety of reasons among which the increase in the cost of production of foodgrains and official restrictions on their free movement across the country are the more important. It is also to be borne in mind that, although the output of cereals has been going up, the output of other food crops, such as pulses and oilseeds, has not been increasing in step with demand. On the contrary, there is a pronounced shortage of oilseeds and edible oils which has been pushing up the prices of essential articles of consumption and thereby contributing to an increase in the cost of living.

Main Bottlenecks

Against this background, the probable trends of costs and production in the industrial sector become all the more significant. As for costs, all the indications are that they will keep going up and up. Where output is concerned, the prospects of installed capacity being utilised more fully or more intensively are on the whole bright. The snag is with regard to the expansion of existing production facilities or the setting up of new production units. The main bottlenecks here are, of course, the political attitudes of the government and the inertia of the administration.

Even in the case of strategic industries, the immediate expansion of which has been accepted by the government itself as a matter of high national priority, governmental obstructionism shows no sign of waning or weakening. Urgent fertilizer projects, for instance, are being delayed because the administration seems unable or unwilling to take even routine decisions on details. When this is the case, the plight of other industrial ventures can be easily imagined. The Prime Minister, in her budget speech, expressed concern over the emerging shortages of critical materials, such as steel. But even in the case of steel, schemes for the manufacture of special or alloy steels are being compelled to drag their feet because the govern-

Eastern Economist 25 Years Ago

MARCH 16, 1945

A Budget is a financial statement of expenditure and revenue. If it receives so much attention by the public it is because both expenditure and revenue impinge upon economic and social policies and are an expression of such policies as framed and adopted by the Government. Every criticism of the budget is, of course, directly and in the first instance a criticism of the Finance Member who is the custodian of the country's finances but it is also a criticism, indirectly and a little remotely, of every other member of the Government who either has failed to press upon the Finance Department the right course of action or meekly submitted to its wrong decisions. All this is well-known. It is therefore unnecessary for the the Supply Member to tell the Legislative Assembly solemnly as if it can be any diminution of the responsibility of the Finance Member, that for every kind of policy or action he and his other colleagues are prepared to take equal responsibility. But this assurance is welcome for another reason; it would afford the public an opportunity to test the measure of the knowledge and responsibility of some members of the Government in respect of an important matter of policy in which at least three departments are involved, the Industries and Civil Supplies, the Supply and the Planning Departments.

ment, for reasons best known to itself, is not prepared to give up its obstructionist attitudes. In the case of several other industries, such as for instance, aluminium and staple fibre, there is tremendous scope for the early expansion of production provided the government is prepared to permit it.

The tragedy is that industrial stagnation and demoralisation are being caused to a greater extent by the obstructionism practised in New Delhi than the vandalism perpeterated in West Bengal. A budget is only one of the instruments of economic policy. It has to be seen in the larger perspective of the government's management of the economy. Viewed in these terms, as well as in relation to the specifics of its fiscal and other proposals, the central budget for 1970-71 has little claim to be a landmark in the nation's quest for a brighter economic future.

Squeezing the Tax-Payer

S. P. CHOPRA

THE TOTAL tax revenue of the Government of India has multiplied almost seven times during the last two decades. In 1950-51, the yield from direct and indirect taxes (including the share of the states) totalled Rs 449.24 crores. According to budget estimates, the total tax revenue is expected to be Rs 3,136.64 crores next year (1970-71) including the incidence of the fresh imposts aggregating to Rs 170 crores. During this period, national income increased by about three-and-a-half times with the production of factory establishments showing an increase by four times at current prices. The incidence of taxation has thus progressed much faster than the growth of our economy, and, as is shown later, the pressure of rising taxes has been extremely large and growing on a small section of society.

Back in 1950-51, the incidence of direct taxes was almost equal to that of indirect taxes. While direct taxes totalled Rs 221.75 crores, the indirect taxes yielded Rs 227.49 crores. In 1970-71, the share of direct taxes is expected to be nearly one-fourth of the total taxes. The direct taxes at Rs 827 crores will constitute 26.36 per cent of the total tax revenue. The break-up of this total is expected to be as follows:

	1970-71 Rs crores
Income-tax	438.00*
Corporation tax	342.00
Estate duty	7.50
Wealth tax	18.00
Expenditure tax	0.01
Gift tax	1.50
Land revenue	0.15
Taxes on vehicles	2.44
Stamps	6.92
Registration fees	0.16
Others	10.36
Total	827 04

*Including Rs 15 crores due to the budget proposals.

The percentage rise in direct taxes in 20 years was nearly one-third of the percentage rise in indirect taxes. Whereas the rise in direct taxes between 1950-51 and 1970-71 was 273 per cent, the corresponding increase in indirect taxes was 916 per cent.

This is a pointer to the fact that, in the history of tax evolution in this country, the government turned to direct taxes first. It was only when the direct taxes had become inelastic that the government started tapping indirect taxes. In the budget for 1970-71, no new taxes have been levied on the corporate sector; the additional yield of Rs 15 crores is expected from changes in income-tax and wealth tax rates.

At the existing rates of taxation, the income-tax likely to be collected in 1970-71 works out to be Rs 423.00 crores. The distribution between advance collections, ordinary collections, surcharge etc., has been estimated by the union Ministry of Finance as follows:

	Rs crores
Advance tax collections (net)	•75.00
Ordinary collections	319.00
Surcharge (Union)	15.00
Surcharge (Special)	8.00
Additional surcharge (Union)	2.00
Miscellaneous	4.00
	423.00

The yield from income-tax in 1950-51 was Rs 132.73 crores only. It follows that during the past 20 years, the yield from income-tax has increased more than twice over. By and large, this increase in yield was made possible by the rise in the number of assessees and only to a small extent through increased rates of taxation. The number of individual assessees in 1950-51 was 395,107; in 1964-65, the latest year for which figures are available, their number had multiplied nearly three times to 1,229,854 (Table I).

It is a safe guess that the strength of these assessees has now crossed the two-million mark. In 1950-51, out of 395,017 assessees, as many as 353,544 were in income groups below Rs 15,000 a year (Table II).

TABLE I

INCOME TAX ASSESSMENTS

(Individuals)

Years	No. of assessees	Income (Rupees in crores)	Tax* (Rupees in crores)
1950-51	3,95,017	342.32	63.70
1951-52	5,47,539	475.49	80.35
1955-56	4,54,695	500.54	79.41
1956-57	4,99,621	551.83	87.57
1960-61	8,28,347	777.80	98.06
1961-62	9,40,246	884.60	112.58
1962-63	9,61,841	923.12	118.35
1963-64	10,36,534	959.15	115.84
1964-65	12,29,854	1091.79	128.02

*Includes Income-tax and Super-tax for 1950-51 and 1951-52 and Income-tax, Super-tax and Surcharge for 1955-56 to 1962-63.

SOURCE: Income-tax Revenue Statistics—All-India Statement No. 5.

In 1964-65 out of 1,229,854 assessees, 1,095,155 assessees had incomes below Rs 15,000 a year. (Table III).

It means that the percentage distribution of assessees in different income groups has not changed much. If 20 years ago, nearly 90 per cent of the assessees had incomes below Rs 15,000 a year, then even in 1964-65 the percentage of such assessees had not changed. Again, the number of assessees having annual income of more than Rs 15,000 was 41,473 in 1950-51, which had multiplied more than three times in 1964-65 to 134,699.

While some marginal relief in income-tax has been provided for incomes below Rs 40,000, the rates of income-tax have been raised above this level. The

TABLE II

DISTRIBUTION OF ASSESSEES, INCOME AND TAX OF INDIVIDUALS BY INCOME GROUPS : 1950-51

Grades of income (Rs)	Assessments Number	Assessments Per cent	Income Amount (Rs Crores)	Income Per cent	Tax Amount (Rs Crores)	Tax Per cent
Below 5,000	2,12,037	53.7	72.73	21.3	1.89	3.0
5,001-10,000	1,07,911	27.3	74.38	21.7	3.92	6.1
10,001-15,000	33,596	8.5	40.70	11.9	3.77	5.9
15,001-25,000	22,419	5.7	42.65	12.5	6.37	10.0
25,001-50,000	13,078	3.3	44.20	12.9	22.67	35.6
50,001-1,00,000	4,148	1.1	28.20	8.2		
1,00,001-1,50,000	933	0.2	11.30	3.3	6.20	9.7
1,50,001-2,00,000	405	0.1	6.91	2.0	4.12	6.5
Over 2,00,000	490	0.1	21.28	6.2	14.75	23.2

TABLE III

CLASSIFICATION OF THE TAX PAYABLE FOR THE YEAR ENDED 31ST MARCH, 1965, BY GRADE OF TOTAL INCOME AND CLASS OF ASSESSEES.

Grade of total Income	Individuals (all sources)							
	Assessees	Total Income Assessed	Tax payable: Income-tax	Super-tax	Surcharge: Union	Surcharge: Special	Total	Net Income
Rs.	No.			Rs. (000)		Rs (000)		
Below — 3,000	3,779	33,65	5,09	2,88	62	21	8,80	24,85
3,001 — 5,000	466,190	1,89,30,23	1,80,89	6,64	29,24	75	2,17,52	1,87,12,71
5,001 — 7,500	333,776	2,03,64,13	4,76,69	3,07	46,96	2,16	5,28,88	1,98,35,25
7,501 — 10,000	152,320	1,32,01,77	5,56,83	3,09	42,38	4,58	6,06,88	1,25,94,89
10,001 — 12,500	82,316	92,22,67	5,43,94	2,62	31,92	4,96	5,83,44	86,39,23
12,501 — 15,000	56,774	77,64,42	5,50,38	2,88	27,86	5,29	5,86,41	71,76,01
15,001 — 17,500	35,283	57,21,75	4,98,43	2,92	20,84	5,73	5,27,92	51,93,83
17,501 — 20,000	23,663	44,05,60	4,32,94	2,97	22,87	5,53	4,64,31	39,41,29
20,001 — 25,000	26,504	58,98,61	7,05,65	47,08	34,55	13,12	8,00,40	50,98,21
25,001 — 30,000	15,227	41,55,21	5,65,70	1,10,84	32,80	12,45	7,21,79	34,33,42
30,001 — 40,000	15,252	52,66,06	8,14,25	3,21,74	52,33	23,89	12,12,21	40,53,85
40,001 — 50,000	7,592	33,73,82	5,70,88	3,45,15	45,03	19,65	9,80,71	23,93,11
50,000 — 60,000	3,890	21,23,35	3,79,57	3,02,49	33,26	16,18	7,31,50	13,91,85
60,001 — 70,000	2,216	14,31,04	2,64,73	2,54,72	26,32	13,77	5,59,54	8,71,50
70,001 —1,00,000	2,835	23,33,24	4,45,32	5,29,41	52,59	30,51	10,57,83	12,75,41
1,00,001 —2,00,000	1,618	21,80,42	4,51,43	6,74,08	73,79	50,89	12,50,19	9,30,23
2,00,001 —3,00,000	327	7,83,95	1,68,12	2,80,96	33,17	22,96	5,05,21	2,78,74
3,00,001 —4,00,000	123	4,27,00	94,21	1,59,71	22,98	14,15	2,91,05	1,35,95
4,00,001 —5,00,000	57	2,52,37	55,07	94,77	9,05	13,43	1,72,32	80,05
Over — 500,000	112	13,12,06	3,23,69	5,66,53	66,79	37,79	9,94,80	3,17,26

number of individual assessees with incomes above Rs 40,000 a year in 1964-65 was 18,770 only. How many are currently in those income groups is not known. Perhaps the number may not exceed 30,000. The increased incidence of income-tax will thus fall on a small number of individuals, mostly in the middle and upper middle classes.

Table IV below compares the rates of income-tax in 1950-51 and 1970-71 (proposed) applicable to a married individual with more than one child. For a person earning Rs 10,000 a year, the income-tax in 1970-71 will be Rs 550 – only Rs 58 more than what was paid by an assessee 20 years ago earning the same amount in a year. Thus, the increase in income-tax is relatively small. The depreciating value of the rupee has, however, imposed increased burden. For example, an income of Rs 10,000 in 1970-71 is equivalent to Rs 5,140 in terms of 1950-51 prices after providing for income-tax.

Mr S. Bhoothalingam, former secretary in the Ministry of Finance, had analysed in his report on "Rationalisation and Simplification of Tax Structure" the yield of income-tax from different income brackets and had come to the conclusion that the total income-tax revenue from assessees with income up to Rs 10,000 would be not more than Rs 12 or 13 crores a year. He had suggested that the exemption limit should be raised from Rs 4,000 to Rs 7,500 which would reduce the burden of tax assessment sizably without loss of much revenue. In the latest budget, the Prime Minister has raised the exemption limit to Rs 5,000 which will provide relief to about 500,000 assessees from income-tax, according to 1964-65 data.

Capacity to Save Curtailed

The latest budget proposals contain a number of incentives for promoting savings of the community while at the same time taking steps to curtail the capacity to save in the case of those income groups which are known to be traditional savers and which have taken active interest in the past 20 years in the promotion of new ventures. Take the case of a person earning Rs 50,000 a year. Until this year he paid Rs 17,611 by way of income-tax and was left with Rs 33,389. Assuming that he spent only half of his gross income for the maintenance of his family (including his personal extravagancies) he saved Rs 8,389 by way of provident fund contributions, life insurance premia and purchase of units. The increase in the tax burden by Rs 1,089 in 1970-71 will force him to either curtail his life insurance cover or cut his family expenditure. The opportunity to avail of the incentives provided by way of increased investment in Unit Trust of India, shares of Indian companies, securities of the central government and deposit in banking companies will not be availed of by this group because of the absence of savings.

The elaborate details given in a separate paper circulated along with the budget documents entitled "Savings Schemes and Tax Incentives for Savings" lose much of their significance for this group. Only the retired employees who obtain large funds by way of provident fund accumulations and gratuity are likely to benefit from the concessions which have been allowed. As stated earlier, the rising prices have cut into the standard of living of the people. To expect them to increase their savings when the incidence of tax is increased and consumer prices continue to rise, is to fly in the face of facts.

Streamlining Administration

The Prime Minister has thought it fit to increase the burden of income-tax on middle and upper classes, forgetting that the objective of increased revenue could also be attained by streamlining the administrative machinery. The Public Accounts Committee of the last Lok Sabha in its 28th report had stated that test-audit of six per cent of the assessees had disclosed under-assessment to the extent of Rs 2.29 crores. I quote:

"The Committee are surprised to find that the test-audit of 82,495 cases (6 per cent of the total number of 13.81 lakh assessees) has revealed under-assessment to the extent of Rs 2.29 crores (in 5,195 cases) and over-assessments amounting to Rs 3.93 lakhs (in 258 cases), besides several lapses in procedure. The large number of cases involving under-assessment to the tune of Rs 2.29 crores clearly establish the necessity of streamlining administrative machinery and the Committee suggest that effective steps should be taken in this direction, keeping in view the complexity of income-tax law.

Heavy Work-Load

"It appears to the Committee that one reason for the magnitude of the mistakes committed by the Income-tax Officers is the heavy work-load. Considering that there are 13.81 lakhs of assessees to be assessed by about 1300 officers, the work-load on each Income-tax Officer on an average comes to about 1,000 cases a year which has been considered high by the Santhanam Committee in its report on prevention of corruption (item (ix) — page 272). Any streamlining of the administrative machinery must take into account the need to reduce this work-load with a view to obtaining the optimum efficiency. They note that the functions of the Internal Audit have been enlarged so as to include the checking of mistakes of law or rates, besides verifying the arithmetical calculation of the tax. The Committee trust that, with the enlargement in the nature of the duties performed by Internal Audit, there will be significant improvement in prompt

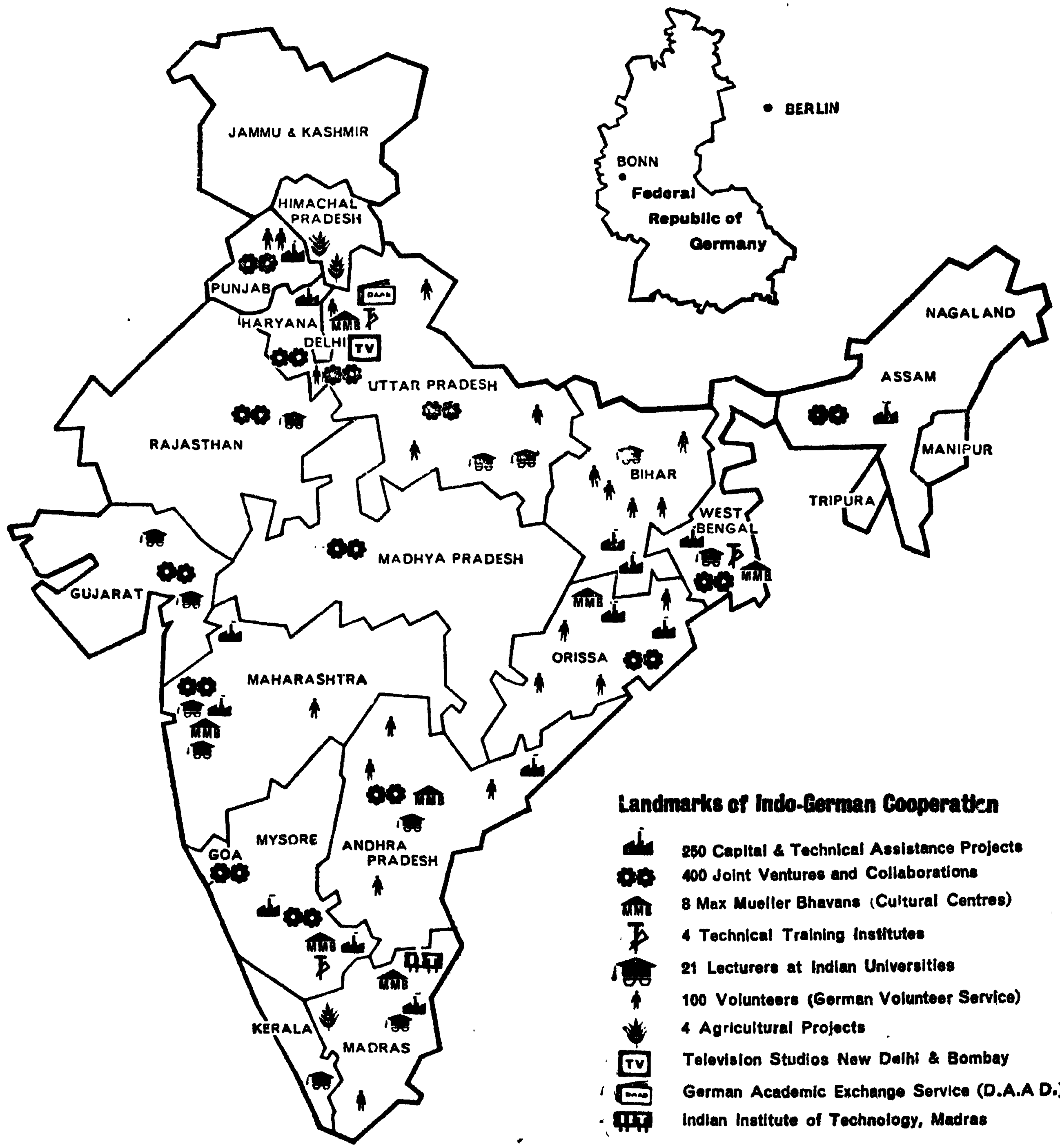
TABLE IV

RATES OF INCOME-TAX : 1950-51 AND 1970-71

(Married individual with more than one child)

Income (Rs)	1950-51 (Rs)	1970-71 (Rs)	Increase (+) or Decrease (—)
5,000	117	..	+117
7,500	273	275	+2
10,000	492	550	+58
15,000	1,086	1,485	+399
40,000	9,711	12,100	+2,389
70,000	26,586	33,000	+6,414
90,000	40,492	48,950	+8,458
100,000	47,680	57,200	+9,520
150,000	85,180	101,200	+16,020
200,000	124,242	145,200	+20,958
300,000	202,367	238,700	+36,333
500,000	358,617	425,700	+67,083
1000,000	749,242	893,200	+143,958

A Survey of Friendship



India and Germany—Partners in Progress

detection of cases of over-assessments and under-assessments. They also suggest in future individual cases involving an under-assessment beyond a certain amount (say Rs 10,000) should be investigated in detail and action taken against officers concerned, if under-assessment is found to be due to their negligence or non-observance of rules or malafides."

It is a pity that the reports of the Public Accounts Committees are not given the attention that they deserve. If action were taken on the suggestions made by these committees, there would perhaps have been no need to increase the income-tax rates. Again, the 74th report of the Public Accounts Committee indicated that the arrears in tax increased from Rs 282.37 crores in 1963-64 to Rs 381.88 crores in 1965-66. This continuous rise in arrears is a sad commentary on the working of the Central Board of Direct Taxes.

Highest Incidence

The Federation of Indian Chambers of Commerce & Industry (FICCI), New Delhi, has recently completed a study of the incidence of income-tax (including surcharges) in our country and 30 other countries. Its findings regarding incomes from Rs 10,000 to Rs 50,000 are summarised in Table V. In the case of our country, the income-tax rates are those proposed in the budget proposals for 1970-71 while in respect of all other countries, no change has been made and they relate to the latest year for which information was available to the research staff of the FICCI. It will be seen that for an annual income of Rs 50,000 a year, our country was at the top with incidence at 37.40 per cent followed by Austria and Sweden at 26.00 per cent, Ceylon at 25.80 per cent, Costa Rica at 24.88 per cent and New Zealand at 24.02 per cent. It follows that in this income bracket, the maximum proportion of income-tax in those countries where the rates are stringent, is not more than one-fourth of the income whereas in our country, it has been raised to more than one-third of the income.

Again, for an income of Rs 25,000 a year, the incidence of income-tax in our country at 16.56 per cent is a shade lower than that in Austria at 16.76 per cent. Out of 31 countries which have been studied, only three countries (including ours) had rates above 16 per cent of income. Those having rates of income-tax between 10 and 16 per cent were 12 in number while the remaining 16 had rates below 10 per cent. Again, for an annual income of Rs 10,000 Iran was the leader with an exceedingly high rate of tax at 15.50 per cent followed by Thailand at 8.20 per cent, Ethiopia at 6.50 per cent, Belgium at 5.8 per cent and our country at 5.50 per cent. No less than 16 countries out of a total of 31 did not impose any income-tax at this level of income considering it too low for attracting this tax.

What follows from this comparison is that our country is one of the most heavily-taxed countries in the world. In the case of the middle income brackets, the income-tax rates are very harsh leaving little incentive for hard work. It is this crippling character of these income-tax rates which acts as a disincentive.

The tax on wealth was imposed for the first time in our country in 1957. The Wealth Tax Act, 1957, levied tax on the wealth of every individual and Hindu undivided family. The rates of this tax have varied over the years, though the number of assessees have been on the decline. Consequently the yield from this tax has been meagre. As Table VI shows, the yield from this tax in 1960-61, was not more than Rs 8.15 crores. During the current year,

TABLE V

TAXATION OF PERSONAL INCOME

Incidence of income-tax including surcharges, if any, at selected levels of taxable income of resident married individual with two children

(Rounded off to nearest Rs 10)

Level of income	Rs 1,000		Rs 25,000		Rs 50,000	
	Tax		Tax		Tax	
Country	Rs	Per cent	Rs	Per cent	Rs	Per cent
Argentina	..	..	1,990	7.96	9,710	19.42
Australia	130	1.30	2,530	10.12	10,680	21.36
Austria	250	2.5	4,190	16.76	13,000	26.00
Belgium	580	5.8	3,280	13.12	9,690	19.38
Brazil	..	..	410	1.64	4,310	8.62
Canada	..	...	900	3.60	6,290	12.58
Ceylon	430	4.30	3,070	12.28	12,900	25.80
Costa Rica	..	...	3,840	15.36	12,440	24.88
Ethiopia	650	6.50	2,160	8.64	8,000	16.00
Finland	90	0.9	2,630	10.52	9,820	19.64
France	500	5.0	2,830	11.32	8,600	17.20
Germany (West)	..	..	2,500	10.00	7,670	15.34
Ghana	440	4.40	4,140	16.56	8,560	17.12
India	550	5.50	4,400	16.56	18,700	37.40
Iran	1,550	15.50	3,860	15.44	8,040	16.08
Ireland	..	..	2,300	9.20	10,080	20.16
Japan	80	0.80	2,130	8.52	8,710	17.42
Luxembourg	..	..	1,510	6.04	6,410	12.82
Malaysia	..	..	910	3.64	5,110	10 22
Netherlands	..	..	2,360	9.44	10,000	20 00
New Zealand	..	..	3,470	13.88	12,010	24 02
Nigeria	160	1.60	2,030	8.12	7,060	14.12
Pakistan	..	..	2,010	8 04	8,250	15.50
Panama	60	0.60	500	2.00	1,900	3.80
Philippines	..	..	1,400	5 6	6,700	13.40
Puerto Rico	..	..	190	0.76	3,300	6.60
Sweden	460	4.6	3,890	15 56	13,000	26.00
Thailand	820	8.20	2,890	11.56	7,330	14.66
U.K.	..	..	3,270	13 08	11,290	22.58
U.S.A.	..	..	350	1.38	4,140	8 28
Venezuela	..	..	..	..	1,270	2 54

Source: Direct Taxes (An International Comparison)—a publication of the Federation of Indian Chambers of Commerce and Industry, New Delhi.

certain amendments have been proposed in the Wealth Tax Act, 1957, so as to increase the incidence of this tax. It is now proposed to raise the minimum rate of wealth tax from 0.5 to 1 per cent in the lowest slab of net wealth. It may be recorded here that tax on wealth up to Rs 100.000 in the case of individuals (and Rs 2 lakhs in the case of Hindu undivided family) is exempted. On the next Rs 4 lakhs, the tax hitherto was 0.5 per cent but in has now been raised to 1 per cent.

In the net wealth slab of Rs 5 lakhs to 10 lakhs, the rate has been enhanced from one per cent to two per cent. Similarly in the net wealth slab of Rs 10 lakhs to 15 lakhs the rate has been raised from 2 per cent to 3 per cent. For the net wealth slab of Rs 15 to 20 lakhs, the rate has been raised to 4 per cent and for all net wealth in excess of Rs 20 lakhs, the rate has been raised to 5 per cent. It has been estimated that this increase in the rates of income-tax will add to the revenue substantially. As against the revised estimated yield of Rs 14 crores in 1969-70, the budget for 1970-71 has taken credit of Rs 18 crores from this tax. In order to attract additional assessees into the net of wealth tax, a new definition of urban areas has been devised in the Finance Bill, 1970. The urban area is now defined as an area within the limits of the municipality or cantonment board which has a population of not less than 10,000 according to the latest census for which relevant figures has been published. It means that a large number of industrial towns which had not been brought within the purview of the Wealth Tax Act will now be covered.

Penalising the Thrifty

The wealth tax is designed to penalise the wealthy for not having recklessly squandered their acquisitions gained over one or more generations. What is worth pointing out is that more than 90 per cent of them lie within the net wealth range of Rs 2 lakhs to Rs 12 lakhs. Nearly two-thirds of all such assessees are in the lowest range of Rs 2 lakhs to Rs 3 lakhs. Ever since 1957, the number of assessees in the top range of net wealth has been declining. In 1960-61, the number of assessees having net wealth of Rs 1 crore was 32. By 1964-65, their number had dropped to 20, and it will be no surprise to find that in the assessment year 1970-71, no assessee commanded net wealth of a crore of rupees.

The foremost advocate of wealth tax, Mr Nicholas Kaldor, had, in his report to the Government of India more than a decade ago, recommended that the maximum rate of income-tax and super-tax should not exceed 45 per cent if the wealth tax and other taxes recommended in the report were to be introduced in this country. Strangely the government has ignored the basic condition of lowering the income-tax (plus super tax) rates while imposing stringent

TABLE VI

YIELD FROM WEALTH TAX

	(Rs crores)
1960-61	8.15
1961-62	8.26
1962-63	9.54
1963-64	10.20
1964-65	10.50
1965-66	12.05
1966-67	10.58
1969-70 (Revised)	14.00
1970-71 (Budget)	18.00

TABLE VII

DISTRIBUTION OF NET WEALTH AND WEALTH TAX LEVY : 1964-65

(Individuals)

Range of net wealth	No. of assessments	Total Value of Net Wealth: In respect of assets in India	Total Value of Net Wealth: In respect of assets outside India	Total	Wealth tax levy
Rs lakhs		Rs crores	Rs crores	Rs crores	Rs crores
1—2	19,271	281.3	0.6	281.9	0.5
2—3	13,555	327.8	0.8	328.6	1.8
3—4	5,895	200.3	0.7	201.0	1.7
4—5	3,085	136.4	0.7	137.1	0.6
5—12	5,117	361.4	2.2	363.6	5.1
12—13	181	22.5	0.1	22.6	0.2
13—14	130	17.3	0.2	17.5	0.2
14—15	103	14.7	0.1	14.8	0.1
15—22	421	74.7	0.4	75.1	0.8
22—23	42	9.3	0.1	9.4	0.1
23—24	13	3.0	..	3.0	0.04
24—25	24	5.9	0.04	5.9	0.07
25—50	214	70.1	1.4	71.5	1.0
50—75	33	18.5	1.0	19.5	0.3
75—100	21	18.4	..	18.4	0.3
Over 100	20	47.2	..	47.2	0.9
Total	48,215	1,609.1	8.4	1,617.5	13.7

wealth tax and other taxes. In the budget proposals for 1970-71, instead of lowering the maximum rate of income-tax of 82.50 per cent (including surcharge) on income in the slab over Rs 250,000, the rates of income-tax have been enhanced with the result that the maximum rate of income-tax including surcharge will now be 93.5 per cent on income in the slab over Rs 200,000. At the same time, the wealth tax rates have been enhanced and the exemption limit for gifts has been lowered.

All these measures are thus designed to put a ceiling on income and wealth even though no direct legislation has been put forward in this regard. What is patent is that, at higher levels of income and wealth, the assessees will not only be forced to forgo all the current income but also to shed a part of the accumulated savings. A person commanding wealth equivalent to Rs 20 lakhs and earning a return of 7.5 per cent per year on it, will have to pay Rs 101,200 by way of income-tax and Rs 49,000 as wealth tax. As we go up the ladder, a stage is reached when the assessee has to surrender the whole of his income and a part of his capital to meet the tax obligations.

The Gift Tax Act, 1958, was designed to discourage the wealthy assessees from evading estate duty by making gifts of assets to their near and dear ones. A look at the yield from this tax during the past decade shows that it has been a success in this regard. The number of persons who did give such big gifts to others as attracted the gift tax was 14,329 only in 1964-65. The declining yield from this tax since that year shows that the number of persons attracting this tax has dropped substantially. In the budget proposals for 1970-71, the gift tax rates have been enhanced and the exemption limit has been lowered so as to raise the yield from this tax. Hitherto gifts valued at Rs 10,000 or less did not attract this tax. Now the limit has been lowered to Rs 5,000 so that even smaller gifts should bring some tax revenue to the exchequer. The rates of tax have also been raised all along the line except the gift range Rs 350,000-20,00,000 for which the rates are unchanged. The rate of tax for gifts above Rs 20 lakhs has been increased sharply from 50 to 75 per cent.

According to data for 1964-65, the largest number of gifts were in the range

TABLE VIII

ANALYSIS OF GIFT TAX FOR THE YEAR 1964-65

Range of taxable gifts	Individuals consolidated			Hindu undivided family			Company			All Classes of Assessees		
	No. of assessees	Total taxable gifts	Gift tax	No. of assessees	Total taxable gifts	Gift tax	No. of assessees	Total taxable gifts	Gift tax	No. of assessees	Total taxable gifts	Gift tax
(Rs lakhs)		(Rs crores)	(Rs. crores)		(Rs crores)	(Rs crores)		(Rs crores)	(Rs) crores)		(Rs crores)	(Rs crores)
Upto 0.5 ..	13,368	13.8	1.0	34	0.04	0.001	1	0.003	neg.	13,403	13.8	1.0
0.5-1 ..	554	3.9	0.4	7	0.04	0.004	..	..	..	561	3.9	0.4
1—1.5 ..	160	1.9	0.2	..	..	..	1	0.01	neg.	161	1.9	0.2
1.5—2 ..	94	1.6	0.2	..	..	..	..	..	..	94	1.6	0.2
2-3 ..	59	1.4	0.2	..	..	..	..	..	..	59	1.4	0.2
3-5 ..	34	1.3	0.2	..	..	..	..	..	..	34	1.3	0.2
5-10 ..	14	0.8	0.2	..	..	..	..	..	..	14	0.8	0.2
10-20 ..	2	0.2	0.1	..	..	..	..	..	..	2	0.2	0.1
20-30 ..	..	..	..	..	..	..	..	..	..	..	..	..
30-50 ..	..	..	..	..	..	..	..	..	..	..	..	..
50-100 ..	1	0.9	0.3	..	..	..	..	..	..	1	0.9	0.3
Above 100 ..	..	..	..	..	..	..	..	..	..	..	..	..
Total ..	14,286	25.8	2.8	41	0.08	0.005	2	0.01	neg.	14,329	25.9	2.8

Note : In respect of firms and association of persons, the figures are nil.

up to Rs 50,000. Since the rates of gift tax have been increased, the yield from this levy is likely to be maintained instead of declining as in recent years, at the level of Rs 1.50 crores a year. It is thus not a big source of revenue but it acts as a measure for checking the avoidance of estate duty.

Emphasis on Excise Duties

R. C. UMMAT

IN LINE with the dominant trend in the planning era, the Prime Minister and Minister for Finance, Mrs Indira Gandhi, has again, this year, depended more on indirect than direct taxation for mobilising resources for development. Of the total additional proceeds from taxation proposed by her for the next financial year (Rs 170.06 crores), as much as Rs 155.06 crores are to be raised through indirect taxes — excise and customs levies—as against just Rs 15 crores through direct imposts. Even if the proposals the proceeds from which will mostly accrue in 1971-72 are taken into consideration, the total additional direct tax burden will not come to more than Rs 40 crores out of the aggregate taxation of nearly Rs 195 crores proposed by Mrs Gandhi.

In indirect taxation also, the excise burden preponderates. Customs levies are not expected to add more than Rs 30 crores gross and Rs 20 crores net. The balance of additional revenue from indirect taxes is to accrue from excise duties. The additional excise burden is estimated at Rs 135.47 crores. After allowing for the very marginal reliefs which have been granted to small manufacturers of paints and varnishes, producers of compound fertilizers and small-scale units producing paper, the net additional excise burden aggregates to Rs 135.06 crores.

Widened Net

Not only several existing excise duties have been stepped up but also the excise net has been widened to cover a number of new items.

Among the commodities on which excise duties have been raised steeply are free-sale vaccum pan sugar, tea, medium and superior grade cigarettes, motor spirit, soda ash, caustic soda, medium and superior categories of rayon and artificial silk fabrics, sanitaryware and glazed tiles, aluminium, and refrigerators and air-conditioning appliances and machinery and parts thereof. The existing excise duties have been raised moderately on polyester fibre, superior kerosene, furnace oil, and low-grade cigarettes. The new items subjected to excise levies include office machines like typewriters, calculating machines, computers and intercom devices; metal containers such as casks, drums and cans; sparking plugs; stainless steel blades; slotted angles, iron safes and safe deposit vaults; chemicals such as calcium carbide, bleaching powder and sodium hydrosulphite; synthetic rubber; and food products such as cocoa powder and drinking chocolates, biscuits, pasteurised butter and pasteurised or processed cheese produced with the aid of power, aerated waters produced with the help of power and sold under a brand name or a registered trade mark, glucose, dextrose, instant tea and coffee, vegetable juices, synthetic syrups, dehydrated peas, malted foods, jelly crystals, custard and ice-cream powders.

Import Duties

Import duties have been raised steeply on certain alcohols, synthetic resins and plastic materials and moderately on intermediates used in the manufacture of drugs and pharmaceuticals, certain items of machinery and components, non-ferrous metals, motor vehicle parts, and instruments, apparatus and appliances other than electrical. With the increase in excise duties, countervailing import duties have been raised.

A notable and indeed a healthy feature of the new indirect imposts is that at least to some extent, the Prime Minister has refrained from taking resort to tax measures which foster cost-push inflation. This is evident from the fact that the proposed increase of 7.5 per cent in the import duty on machinery — from 27.5 to 35 per cent — has not been made applicable to machinery which is required for the initial setting up of projects or for substantial expansion of the existing projects, whether in the public or the private sectors. Similarly, components and machinery required for cold storage plants, air-conditioning of hospitals run by government, local bodies and public trusts as well as factory establishments have been exempted from the scope of the enhanced excise duty on this type of machinery and components.

But Mrs Gandhi has hesitated to carry this wholesome principle to its logical conclusion. The raising of the excise duties on such materials as soda ash, caustic soda, calcium carbide, bleaching powder, sodium hydrosulphite, sanitaryware, glazed tiles, aluminium, polyester fibre, metal containers, synthetic rubber, etc., are instances of deviation from the above judicious principle. In the same category fall the increases in the import duties on intermediates used in the manufacture of drugs and pharmaceuticals, non-ferrous metals, synthetic resins and plastic materials and non-electrical instruments.

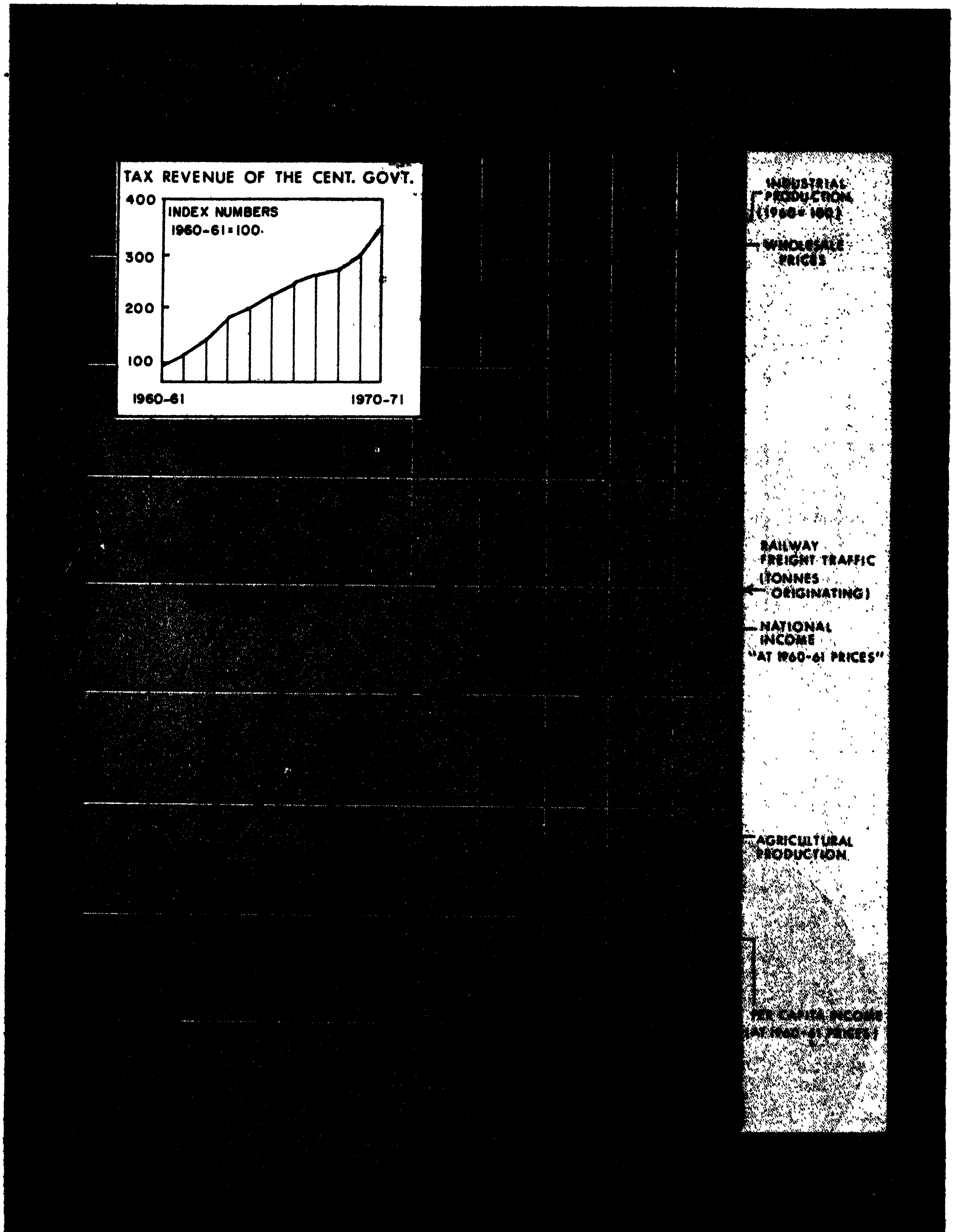
The most controversial excise levies proposed by the Prime Minister, apparently, are those relating to tea, aluminium, synthetic and artificial silk fabrics, food products and sugar.

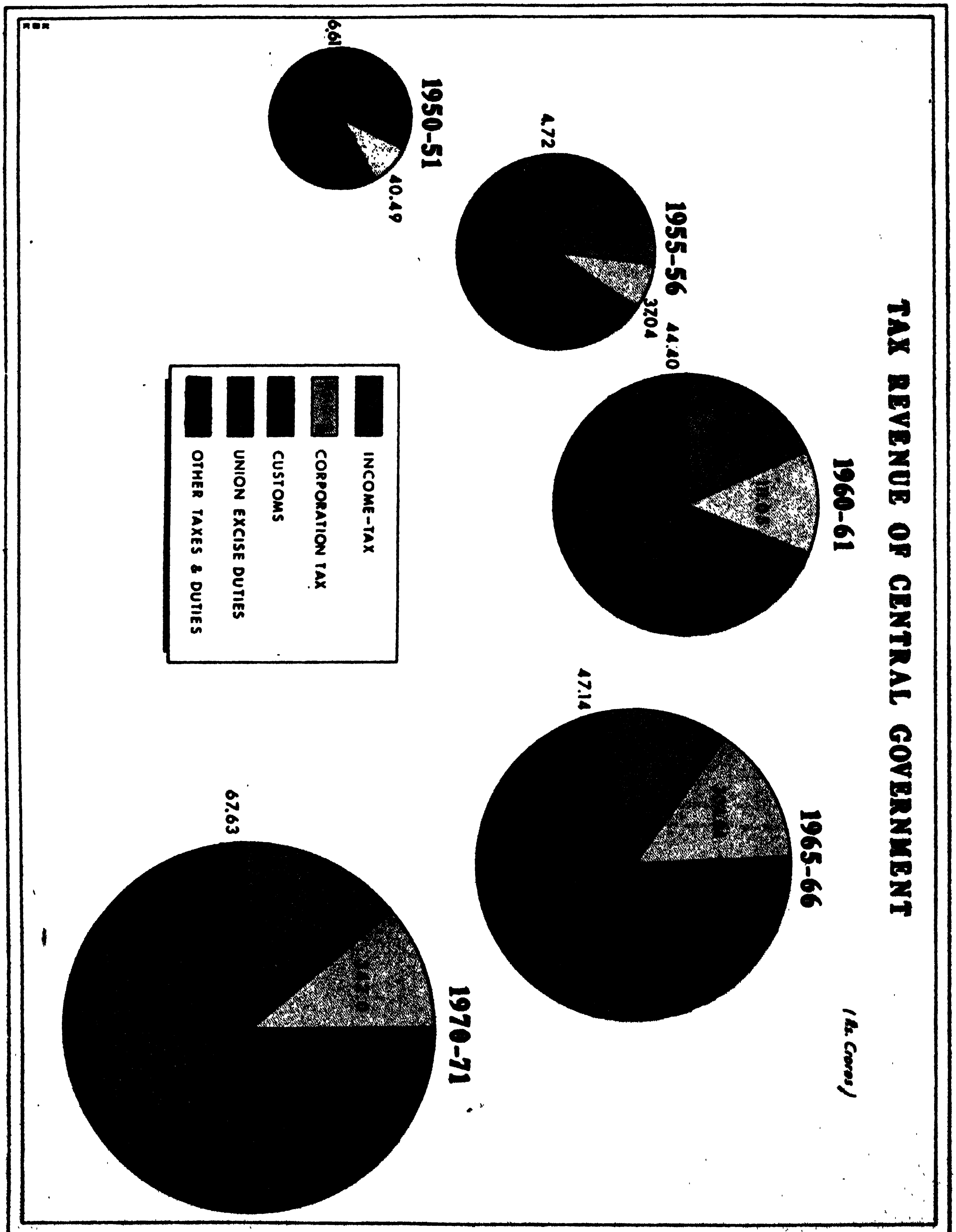
Welcome Step

The abrogation of the export duty on tea is indeed a welcome step for the recent experience has shown that this levy had been a great hindrance to the stepping up of exports. But simultaneously, the Prime Minister has proposed a significant increase in the excise duty, both on loose as well as package tea. In the case of Assam tea, the effective excise duty on loose tea has been raised by 50 paise per kg. The excise levies on the Nilgiris and Darjeeling loose teas have been stepped up by 45 paise and one rupee a kg, respectively. On the low-grade teas, the increase in excise duty is 10 paise per kg. The package tea has not only to bear the increased incidence of excise on loose tea but has also to bear an additional burden of 60 paise a kg if the containers contain 25 grammes to 20 kgs loose tea. Rebate on excise duty is to be allowed on loose tea exported on or after April 15, 1970, at a rate equivalent to 30 per cent of the f.a.s. price in excess of Rs 5.25 per kg, subject to a maximum of 75 paise per kg. A similar rebate is to be allowed on loose tea exported on consignment account to foreign destinations and on the loose tea content of package tea exported. Full rebate of package tea duty is to be allowed in addition, as hitherto.

The revenue minuses and pluses on account of the above changes in taxes on tea, as estimated by the Prime Minister, should suggest that considerable relief has been granted to tea exports. But a statement issued by the Consultative Committee of Plantation Association tells a different story. It points out that the increases in excise duties are substantial and contrary to the recommendations of the Boroogh Committee on Tea; eventually, they will act as a disincentive to production by adding to producers' costs.

The increases in excise duty on tea not only dilute to a considerable extent


TAX REVENUE OF THE CENT. GOVT.
INDEX NUMBERS
1960-61=100
400
300
200
100
1960-61
1970-71
INDUSTRIAL PRODUCTION
WHOLESALE PRICES
RAILWAY FREIGHT TRAFFIC (TONNES ORIGINATING)
NATIONAL INCOME "AT 1960-61 PRICES"
AGRICULTURAL PRODUCTION


TAX REVENUE OF CENTRAL GOVERNMENT
(Rs. Crores)
1950-51
6.61
40.49
1955-56
4.72
32.04
44.40
1960-61
1965-66
47.14
1970-71
67.63
INCOME-TAX
CORPORATION TAX
CUSTOMS
UNION EXCISE DUTIES
OTHER TAXES & DUTIES

the relief granted by the abrogation of export duty, but they will also push up the cost of production by no small degree because of the fact that the capital employed in the industry will have to be more. The competitive position of our tea in the international market, therefore, can be said to have improved not very significantly. In view of the growing competition to our quality teas from African countries, it is doubtful if the producers will be able to pass on a major portion of the excise duty on the foreign buyers. "The increase in the excise duty for zones three and four, Darjeeling and the Nilgiris", the Plantation Association suggests, "will be a particularly crushing burden in view of the already high production costs in these areas and about which a cogent case for reduction in excise duty has been submitted to the government. Moreover, teas from these two areas are mainly purchased by a foreign monopoly buyer who, in the absence of competitors, will not be compelled to increase his prices".

Reprehensible Step

The imposition of 10 per cent *ad valorem* excise duty on instant tea, over and above the zonal levy on loose tea, is all the more reprehensible. The entire output of instant tea is exported and this activity is just in the nascent stage. The export of instant tea indeed has a great future, but the market has yet to be fully developed. The imposition of additional excise on the manufacture of instant tea can hardly be expected to foster the export of this tea.

Another factor to be noted in the case of tea is that one of the state governments has already steeply enhanced the agricultural income-tax in a situation where plantations in the state are already facing a serious economic crisis. There is apparently a case for rationalisation of the taxes, both central and state, on the plantation industry lest its economics should get damaged seriously. Once damaged, the restoration of the health of the plantation industry is not going to be an easy task in the present-day situation of keen international competition.

Now take aluminium. The change-over from the specific basic excise levy of Rs 950 per tonne on primary aluminium or aluminium wires and bars to 25 per cent *ad valorem* is said to have meant an increase in burden to as large an extent as Rs 470. Adding the special excise duty at the rate of 20 per cent of the basic levy, the additional burden works out to Rs 564 per tonne. Nearly 60 per cent of the aluminium consumed in the country is on account of agricultural and industrial electrification. The steep rise in the excise levy on primary aluminium, wires and bars, etc, is bound to give a setback to the electrification programme, particularly in the countryside. The anticipations of energising nearly 1.5 million agricultural pump-sets during the current calendar year will be upset with the consequent adverse effect on agricultural growth.

Setback to Cable Export

Exports of aluminium cables too will receive a setback, particularly when the international price is softening. The US quotation for primary aluminium currently is said to be around 28 cents per lb. Japan is reported to have even decided not to buy aluminium at a rate above 27 cents per lb. This is a clear indication that aluminium prices would go down further in the international market. The cash recompense on exports of aluminium cables, therefore, will have to be raised.

As regards synthetic and artificial silk yarn and fabrics, the following reported statement of the Board of the Silk and Art Silk Mills Association, is indeed revealing:

"According to official estimates, the revenue earned from the pre-budget duty of 7.8 paise (exclusive of handloom cess of 1.9 p.) per sq. metre was Rs 6.37 crores. The Finance Minister has proposed changes in the levies on polyester fibre and synthetic fabrics and estimated a gross revenue of Rs 13.78 crores. It is estimated that the increased levy on polyester alone would yield Rs 3.75 crores, comprising increased revenue of Rs 1.25 crores on indigenous production and Rs 2.25 crores on imports.

Thus, the expected revenue from the proposed changes in the levy on synthetic fabrics is around Rs 10 crores, against the pre-budget yield of Rs 6.37 crores, indicating that the burden is sought to be increased by about 50 per cent. In effect, however, it has been estimated that the new duty on fabrics would yield about Rs 50 crores and not Rs 10 crores. The incidence of the old duty worked out at about 12 paise per linier metre, while such incidence of the new duty in the case of fabrics costing Rs 5 per metre work out at 40 paise per linier metre. In the case of shirting priced at Rs 10 per metre, the excise levy will be a rupee per metre."

Talking of the impact of the budget proposals on the art silk weaving, knitting and processing units, the President of the Bombay Screen Printers and Processors' Association, Mr D.T. Kothi, is reported to have observed that the factories processing ordinary varieties would have to pay about 400 per cent more by way of duty as compared to what they paid hitherto. Those units which do special processing would now be required to pay about 900 per cent more. Mr Kothi fears that the new burden on the industry will lead to closure of many a unit.

No wonder, the artificial silk industry has described the impact of the Prime Minister's taxation proposals affecting it as very heavy.

The change-over from specific rates of duty to *ad valorem* basis, it is further pointed out by the industry, would create many practical problems. The implementation of *ad valorem* duties, it is contended, will be well-nigh impossible in a hetrogeneous industry like the art silk industry where prices of fabrics fluctuate widely and vary from unit to unit. The Prime Minister has not made it clear whether the *ad valorem* duty will be assessed by the industry under the self-assessment procedure.

Surprising Move

Coming to prepared and preserved foods, it is indeed surprising that instead of removing the excise duty on such items as canned fruits, jams and juices, etc, the Prime Minister has thought it fit to enlarge the list of excisable items, by adding such products as vegetable juices and dehydrated peas. Notwithstanding the progress made in the recent past, the food preservation industry in this country is still in the nascent stage. With the notable exception of a few co-operatives, successfully operating mainly in milk products, sugar and fruits, and a handful of industrial establishments, very little has been achieved so far. Out of the total production of nearly 16 million tonnes of fruits and vegetables in the country, not more than 50,000 tonnes were processed in 1968. Of a catch of about 1.5 million tonnes of fish, processed fish products added up to no more than 2,000 tonnes. Similar is the story of milk, meats and other food products. The result is that a good deal of precious food is being wasted for lack of processing facilities. In the case of fruits and vegetables alone, the annual wastage is estimated between 20 and 25 per cent of the total output.

The expeditious development of the food processing industry can go a long way not only in obviating the wastages of food but also in improving the diet of the people. But a more wholesome dividend can be in the form of wide new avenues of employment. This industry is of such a nature that although a few large-scale units in it can be profitably set up at some selected places, essentially the growth has to be in the small-scale sector. The limited capital required for it can well be found or pro-

vided in the remotest corners of the country where there is excess production of fruits, vegetables and other foodstuffs which goes waste due to transportation difficulties. These small units can serve as feeding units for the medium and larger enterprises. The skills required in this industry are not exacting. Moreover, machinery for it is also available indigenously and at a cost less than that of the imported equipment.

The exports of preserved foods can also be multiplied manifold if a judicious approach is made to foster the growth of this industry. But unfortunately preserved and packaged foods are still considered in this country luxury items; they are treated as a fair game for taxation, directly on finished products and indirectly through taxing the packaging material and raw materials. According to experts' estimates, whereas in countries like the United States packaged foods cost less than the fresh foods and in some other countries they cost between 10 and 15 per cent more, in this country they are at least three times as expensive as the fresh foods. The entire approach to the problem has to be changed. Burdening this nascent industry with excise levies is hardly justified.

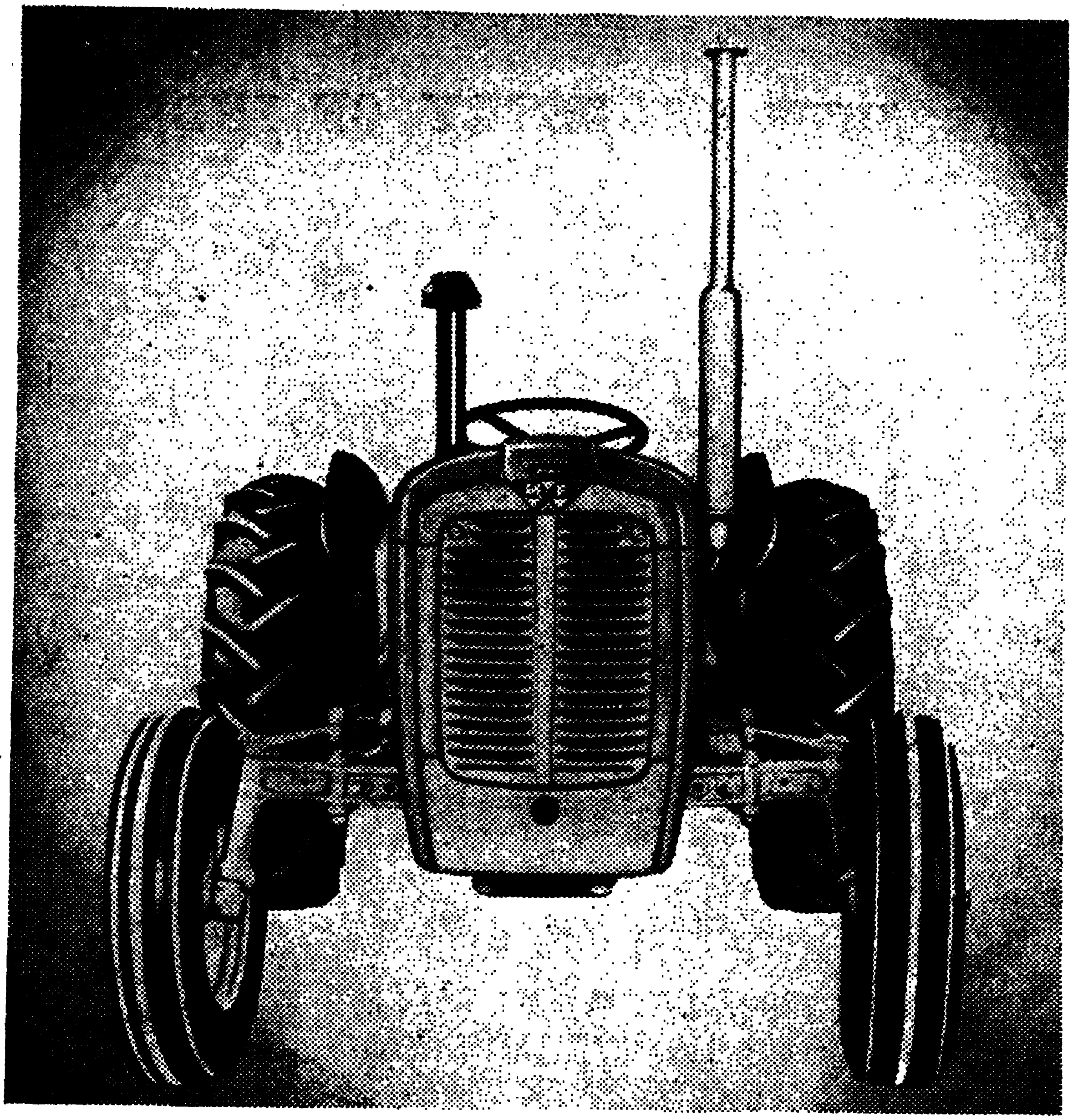
As regards vacuum pan sugar, there is no doubt that the consumers of free sale sugar had been paying till a few months ago much higher prices than they are paying today, thanks to the improved supply position, and with the enhanced burden, the price of free sale sugar will not go up to anywhere near the price prevailing in the latter half of 1968 and the early half of 1969. But is it fair to burden the consumer with additional levy just because he had paid a higher price in times of scarcity?

The enhanced burden of excise duty on free sale sugar will surely be passed on to the consumer in the areas which are serviced by factories in the deficit sugar zones. In the states producing surplus sugar, an anamolous situation can be expected to arise. In these areas, the industry will be adversely affected by the imposition of differential rates of excise duty on free sale and levy sugar. A reference to such a situation was made a few days ago by Mr P. Maruthai Pillai, Vice-President of the Southern India Sugar Mills Association. Commenting on the budget proposals, Mr Pillai said that a hiatus had been created in the marketing of sugar, especially by Tamil Nadu mills. On the basis of the Rs 150 per quintal tariff value, the duty on non-levy sugar now works out to Rs 56.25, as against Rs 34.50 before the budget. In the case of levy sugar, the increase in excise is only marginal — from 23 to 25 per cent. At the current free sale price in Tamil Nadu — Rs 180 per quintal — a sugar mill, thus, will get about Rs 125 per quintal if it sells its sugar in the free market, as against Rs 135 if it surrenders the free market quota for the levy. The price for the levy sugar is Rs 170 a quintal. The excise duty even at the marginally enhanced rate does not work out to more than Rs 35.

In the case of khandsari sugar, the statutory rate of excise duty has no doubt been stepped up, but in view of the fall in khandsari prices, the compounded rates, for which most of the producers opt, have been brought down as should be evident from the following statement issued by the Ministry of Finance:

"The statutory rate of central excise duty on khandsari sugar was 10 per cent *ad valorem* up to the midnight of February 28, 1970. It also bears an additional duty of excise at two and a half per cent *ad valorem*. In the budget proposals, 1970, the statutory rate of 10 per cent *ad valorem* has been increased to 15 per cent *ad valorem*.

"There is a special procedure in the central excise scheme called the com-



pounded levy procedure. According to this procedure, if the manufacturer of a commodity to which this scheme is extended opts for the scheme, he pays a specified sum prescribed by a notification per week/per month and such payment is deemed as full discharge on his liability for the duty leviable on his production of excisable goods during the period for which the said sum is paid. This scheme is extended to manufacturers of khandsari sugar. By and large, the manufacturers of khandsari sugar elect to adopt this scheme.

"Weekly rates are prescribed for khandsari sugar based on the height and diameter of the centrifugal machines employed for the manufacture of khandsari sugar. Taking into consideration the fall in the prices of khandsari sugar, the Ministry of Finance has issued a notification on March 1, 1970. revising the weekly compounded rates for the different sizes of centrifugals employed for manufacturing khandsari sugar without and with the aid of sulphitation plant. Units using sulphitation plant produce better quality sugar. The rates for khandsari sugar manufactured with the aid of sulphitation plant are, therefore, slightly higher than the rates fixed for khandsari sugar manufactured without the aid of sulphitation.

Rates Reduced

"On the basis of height and diameter, the machinery is divided into four classes and rates are fixed for each class. In respect of centrifugal machinery without the sulphitation plant, the rates that prevailed up to February 28, 1970 were Rs 730. Rs 970. Rs 1.470 and Rs 1,950 per week for each of the four types. These rates have been considerably stepped down to Rs 590, Rs 780, Rs 1.160 and Rs 1,520, respectively. Similarly, the rates for four classes of machinery using the sulphitation plant were Rs 1,090, Rs 1,470, Rs 2,190 and Rs 2,920 and they have also been stepped down to Rs 880, Rs 1,180, Rs 1.720 and Rs 2,280, respectively. The reductions in the rates for the four categories range between 19.2 per cent and 21.9 per cent".

The enhancement of the statutory rate of central excise duty on khandsari sugar should not, therefore, cause concern to the industry.

Two other proposals of the Prime Minister also deserve pertinent notice. These relate to (i) sanitaryware and glazed tiles, and (ii) motor spirit. superior kerosene and furnace oil.

The use of sanitaryware and glazed tiles is no longer restricted to luxury housing. Even middle-class housing has to resort to them for sanitation purposes. Their use is also convenient for meeting the municipal requirements in cities. Already housing construction costs have gone up phenomenally, thanks to the increase in labour costs and the prices of bricks, iron and steel, wood and various other building accessories. The price of cement is expected to be raised very shortly. Now sanitaryware and glazed tiles are also to attract 10 and 15 per cent additional excise duty.

Petroleum products were already among the most heavily taxed commodities (see table below). Some of them have been further subjected to imposts. The Prime Minister has justified additional imposts on motor spirit, superior kerosene and furnace oil by saying: "The demand for petroleum products has been increasing very rapidly and it is necessary to exercise some restraint in the interest of saving valuable foreign exchange. It is also necessary to curtail the adulteration of diesel oil by kerosene, which has assumed substantial proportions, and to discourage the use of furnance oil as a substitute for other fuels such as coal".

These reasons of the Prime Minister have a familiar ring. These very reasons were trotted out whenever Mrs Gandhi's predecessors in the Finance Ministry took resort to raising of excise duties

EXCISE LEVIES ON SELECTED COMMODITIES*

(Rs crores)

	1950-51 (Accounts)	1955-56 (Accounts)	1960-61 (Accounts)	1965-66 (Accounts)	1970-71 (Budget)
Total	67.54	145.25	416.35	897.92	1814.00
Petroleum products	2.08	26.11	98.14	271.21	636.54
Tobacco	31.99	36.46	59.41	109.13	227.53
Cotton fabrics	9.26	28.18	62.95	70.01	77.52
Cotton yarn	..	..	0.13	25.63	33.66
Rayon and synthetic fibres and yarn	..	..	2.82	20.01	91.15
Rayon and synthetic fabrics	..	2.18	2.05	1.84	15.77
Synthetic organic dye-stuffs	..	..	0.90	2.94	6.40
Iron and steel products	..	..	..	70.86	88.56
Cement	..	2.22	18.54	30.73	46.68
Chinaware and porcelain	..	..	0.30	1.43	2.76
Tea	3.36	3.17	7.47	17.21	31.90
Coffee	1.17	0.93	1.35	2.11	4.03
Jute manufactures	..	..	..	7.17	20.35
Paper	..	2.68	8.38	18.09	24.63
Aluminium	..	..	1.17	3.73	23.00
Motor vehicles	..	..	8.03	20.09	29.50
Internal combustion engines	..	..	1.53	2.18	1.54
Tyres and tubes	4.04	5.53	13.54	29.58	61.20
Patents and proprictory medicines	..	..	0.26	7.23	18.00
Fertilizers	..	..	..	..	24.82
Sugar	6.46	18.58	55.10	70.07	124.77
Matches	8.07	10.08	18.08	23.24	28.00
Electric batteries and parts thereof	..	0.73	1.88	3.51	9.00
Electric bulbs and tubes	..	0.25	0.68	1.74	3.53
Electric fans	..	0.27	1.17	1.98	3.24
Soap	..	1.55	2.38	4.73	9.24
Plastic materials and synthetic resins	..	..	0.08	5.75	23.04
Paints and varnishes	..	1.01	1.40	4.10	7.44
Refrigerators and air-conditioning appliances	..	..	0.2	2.93	8.20

*Include basic, special and additional duties as well as special cesses.

on petroleum products. A steady increase in the demand for petroleum products cannot always be obviated by fiscal measures in a developing economy. Surely, the prices of motor spirit in this country are prohibitive enough for any consumer to indulge in the luxury of uneconomic use. So far as the continuance of adulteration of kerosene with diesel oil is concerned, it is a reflection of the fact that the levies on diesel had pushed up its prices abnormally. Furnace oil is produced by refineries not at the cost of superior categories of petroleum products; a certain proportion of crude oil results in furnance oil and not much can be done about it. If an industrial establishment switches on from coal to furnace oil, there will surely be valid reasons for this — the cost of coal may be prohibitive. But a more pertinent question that arises in regard to furnace oil is: how is the enhanced excise duty on furnace oil going to affect the plans for using this feedstock for fertilizer manufacture? In view of the growing shortage of naphtha, the Ministry of Petroleum is trying to prevail upon some prospective manufacturers of fertilizer to use furnace oil as feedstock instead of basing their plants on naphtha.

Pushing up Transport Costs

With the public transport system being what it is, the 10 paise per litre increase in the excise duty on motor spirit is bound to push up the conveyance and transportation costs, as the use of motor spirit is still large in public transport, if scooters, autorickshaws, taxis, three-wheelers, etc., can be termed so.

The impact of the indirect taxation proposals of Mrs Gandhi cannot be expected to be marginal on the cost of living as made out by the spokesmen of the Finance Ministry. As pointed out earlier in this article, the proposals in regard to intermediate goods, chemicals and other items of essential expenditure by manufacturers will lead to cost-push inflation. Notwithstanding the exemption granted from the enhanced import duty on machinery and equipment for new units or substantial expansion of the existing units, the cost-push inflation generated by Mrs Gandhi's proposals, the increase in freight rates of railways and the recent stepping up of the prices of steel, etc., will not be insignificant. But a major additional factor will be the increase in labour costs resulting from the increase in cost of living. The living costs can be expected to go up, apart from the inflationary potential of the import and excise levies on materials consumed by industry, because of the excise duties on cigarettes, sugar, tea, etc., and the fairly heavy doze of deficit financing which has been proposed. Although the official spokesmen expect that the prices of low-priced cigarettes will not go up materially, the freedom allowed to cigarette manufacturers to adjust their prices can upset their calculations.

Export After the Budget

A SPECIAL CORRESPONDENT

THOUGH THE Prime Minister has shown in her budget speech some awareness of the importance of export promotion, the proposals announced by her for this purpose are quite inadequate. The approach to export duties has not been realistic. The revised estimates for 1969-70 reveal a net revenue of Rs 70.27 crores from export duties as shown in the table below. But the concessions granted amount only to about Rs 10 crores. This means the government continues to look upon export duties as substantial sources of revenue even though their impact on exports has been adverse.

The Explanatory Memorandum says: "The effect of export duties on the country's export trade is kept under constant review. The export duty leviable on each item of export takes into account, *inter alia*, factors like home production and likely exportable surpluses, demand for products abroad, prices in the international market, de-

TRENDS IN EXPORT DUTIES

(Rupees lakhs)

	Accounts 1968-69	Budget 1969-70	Revised 1969-70	Budget 1970-71
1	2	3	4	5
Export duties				
Jute manufacture	31,57	19,25	19,50	14,00
Raw cotton	2,10	1,90	2,60	2,60
Cotton waste	71	75	50	50
Raw wool	41	20	..	..
Tea	21,08	10,45	8,20	8,20
Coffee	1,82	1,55	1,70	1,70
Black pepper	2,16	3,00	2,10	2,10
Groundnut oil-cake	1	32	16	16
Deoiled groundnut meal	2,46	9,50	7,80	7,80
Unmanufactured tobacco	29	4,00	3,35	3,35
Hides, skins and leathers	1,45	6,90	7,50	7,00
Coir and coir manufactures	1,27	1,40	1,05	1,00
Mica	62	4,60	4,50	4,50
Manganese ore	1,03	1,90	1,50	1,60
Lumpy iron ore &	33,16	10,91	11,20	12,40
other articles		1,59	1,64	1,54
Cesses on exports				
Agricultural produce	1,34	95	1,11	1,11
Unmanufactured tobacco	..	1	13	13
Groundnut meal	..	45	16	16
Coffee	1	17	16	15
Lac	4	4	4	4
Mica	27	29	23	23
Coir manufacture	..	4	4	4
Other articles	13	8	10	10
Total Export duties (gross)	101,93	80,25	75,27	70,41
Deduct Refund and drawbacks	—4,21	—6,00	—5,00	—5,26
Total Export duties (net)	92,72	74,25	70,27	65,15

Source: Explanatory Memorandum

valuation of foreign currencies etc". But the official assessment has generally failed to note the realities of the trading conditions in the world and adjust the export duties promptly and adequately. The result is that in many export items, especially in jute goods and tea, the continuation of export duties has severely crippled their competitive capacity.

For instance, in 1969 the total exports of jute goods declined to 590,000 tonnes from 929,000 tonnes in 1965, a decline of 36.49 per cent, which occurred despite a 120 per cent increase in the export of carpet backing from 100,000 tonnes to 270,000 tonnes in this period. The export of sacking in the last 15 years has dropped from 445,000 tonnes to 48,000 tonnes while the export from Pakistan has gone up from 50,000 tonnes to 239,000 tonnes. Hessian too has suffered seriously, the export having declined in the last five years from 448,000 tonnes to 250,000 tonnes while Pakistan has been able to double her exports from 79,000 tonnes to 192,000 tonnes.

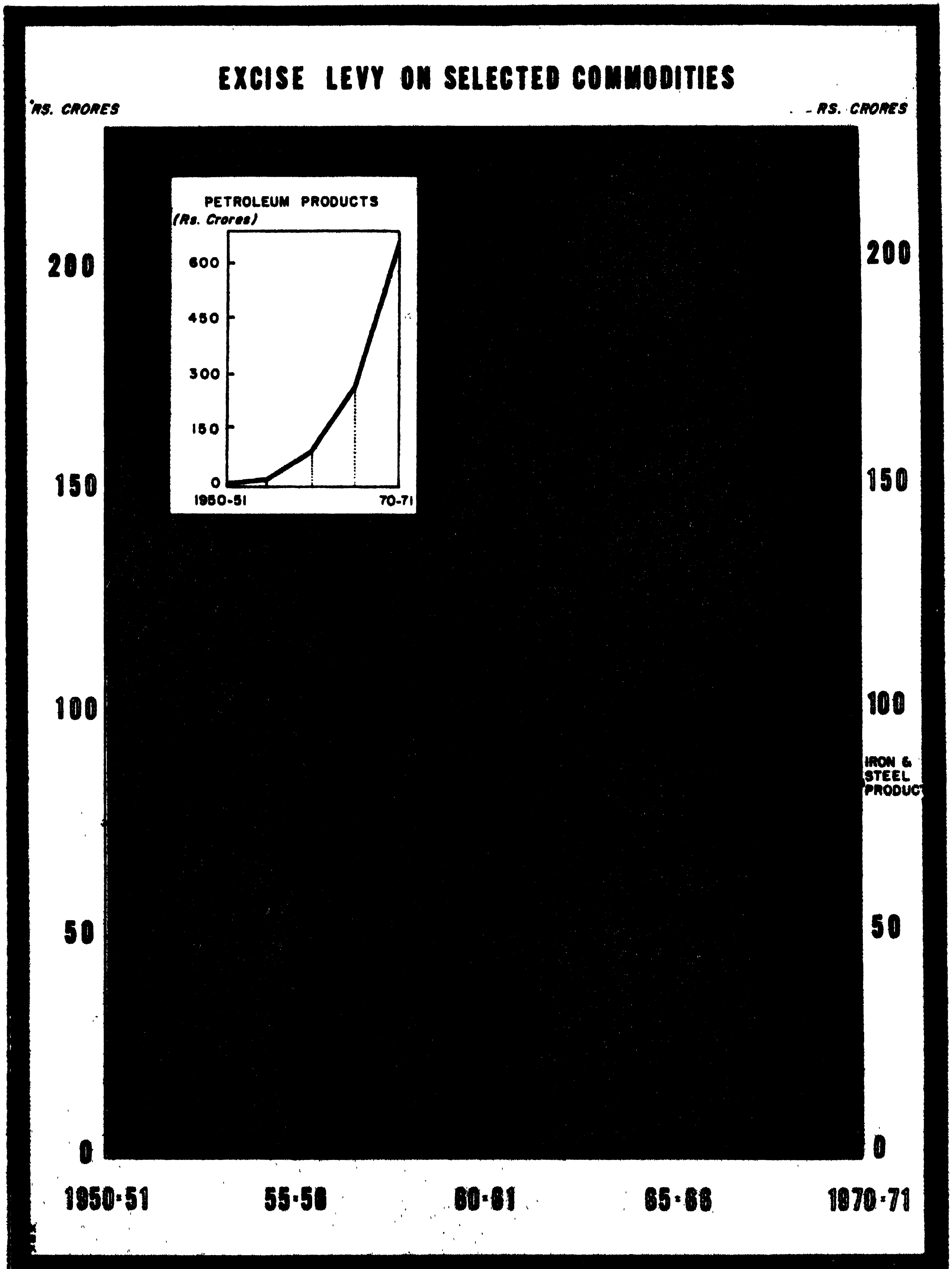
In this background, a reduction in the export duties from Rs 500 to Rs 200 per metric tonne only on jute canvas, jute webbings, jute tarpaulin cloth and manufactures thereof shows an inadequate realisation of the threat to our jute industry from other producers and synthetics. The industry had pleaded not merely for the total abolition of export duties but also for a subsidy to improve its competitive position.

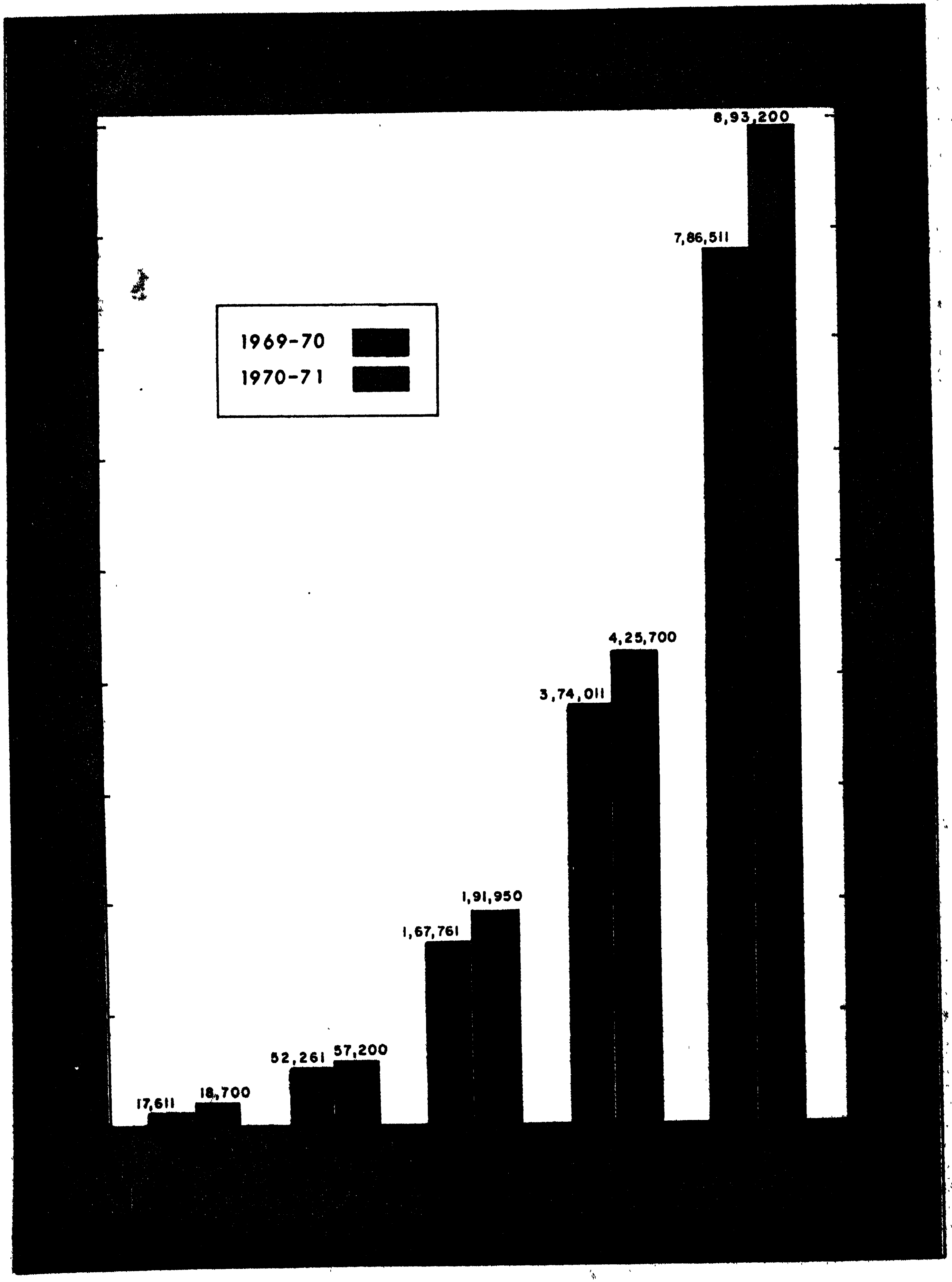
The export duty on tea should have been abolished at least a year earlier. The industry has welcomed its removal but feels aggrieved that the excise duties have been raised steeply as follows:

Excise duty	1969-70	1970-71 New rates
	paise per kg (22-3-1969)	paise per kg.
Green tea	10	
Zone I	25	25
Zone II	40	50
Zone III	50	150
Zone IV	55	100
Zone V	65	115

The steep increase in the excise duty in Zone III which includes Darjeeling is particularly regrettable since the gardens in this area suffered severely in the landslides of 1968 and the prolonged strike in 1969. The industry has also expressed disappointment at the decision to confine refund of excise duty to the maximum of 75 paise per kg. Unless the government reduces the excise duty and removes the ceiling on the rebate for exports, it will be difficult for the tea industry to recover its lost ground in the foreign markets.

The budget provides Rs 40.05 crores for the Market Development Fund during 1970-71. This fund was set up in 1963 to finance the expenditure on grants for export promotion and market development schemes. The budget for 1969-70 had set apart Rs 44 crores for the Fund; the revised estimate puts this figure at Rs 42.35 crores. The savings in the current year and the lower allocation in 1970-71 are attributed to the withdrawal of subsidy on prime iron and steel and less payment envisaged to the MMTC. Even with this reduction, a sum of Rs 40 crores for Market Development Fund is quite substantial but the government has to make sure that


EXCISE LEVY ON SELECTED COMMODITIES
RS. CRORES
RS. CRORES
PETROLEUM PRODUCTS
(Rs. Crores)
600
450
300
150
0
1950-51
70-71
200
150
100
50
0
IRON &
STEEL
PRODUC
1950-51
55-56
60-61
65-66
1970-71


1969-70
1970-71
17,611
18,700
52,261
57,200
1,67,761
1,91,950
3,74,011
4,25,700
7,86,511
8,93,200

the country gets the maximum benefit from this expenditure. Export houses, export promotion councils and commodity boards continue to complain of the inordinate delay and cumbersome procedures in getting money released from this fund.

The budget has reduced the allocation for commercial intelligence and foreign trade organisations from Rs 4.31 crores in 1969-70 to Rs 3.35 crores in 1970-71. The explanatory memorandum says that the government expects less expenditure on these times in 1970-71. One would have thought that commercial intelligence would have received more money in view of its increasing importance in our export drive. There are many regions—Africa, east Europe and Latin America, for instance — about which our commercial intelligence has been quite inadequate and irregular.

To encourage import substitution, the budget increases the import duty on machinery, motor vehicle parts, pharmaceutical chemicals, non-electrical instruments, apparatus and appliances, certain plastic material and nichrome, and other electrical resistance wires. But so far as machinery is concerned, the rise in import duty seems excessive although this increase will not apply to the machinery used for the initial setting up of projects or for substantial expansion of the existing ones. Addressing the annual meeting of the Engineering Association in Calcutta on March 3, Mr Bharat Ram, President of the International Chamber of Commerce, said that he envisaged administrative difficulties in operating this scheme. He also pointed out that if depreciation and development rebate on the higher cost of machinery are taken into account, the net return to the exchequer would be no more than if the import duty was of a lower order. The higher capital costs are bound to increase the prices of the output.

In the context of the slow-down in the rate of growth in our exports in recent months, the budget should have made a more positive contribution to the export drive.

Prospects for Borrowing

'SAGITTARIUS'

THE CENTRAL government has provided for an increase in the outlay on Plan schemes in 1970-71 by nearly Rs 400 crores due to the buoyancy of revenues on the basis of existing taxation, new heavy levies, larger surpluses of public sector undertakings and heavier borrowing through open market loans and under the small savings campaign. There would not have been a sizable overall deficit of Rs 350 crores, even with a larger Plan outlay, but for the fact that it has become necessary again to assist states in difficulty to the extent of Rs 175 crores. With an increase in central assistance by Rs 20 crores and a larger states' share of new taxes, the state governments have in effect been helped to increase their outlay on Plan schemes by 20 per cent as compared to 1969-70. The additional expenditure in the second year of the fourth Plan will, however, be much higher as it is expected that some projects will be helped by the provision of funds by nationalised banks, Agricultural Refinance Corporation and other institutions. Thus, it is reasonable to presume that the revised fourth Plan will be accepted by the states at the forthcoming meeting of the National Development Council though there may be some changes in the appropriations in the light of the views expressed by the Tamil Nadu, Mysore and Kerala governments and the adjustments that might be made to overcome the peculiar disabilities experienced by them as a result of the recommendations of the fifth Finance Commission.

Whatever may be the ultimate size of the annual Plan for 1970-71, it is gratifying to note that the central government would be in a position to meet its commitments and even reduce its overall deficit if fresh assistance to the states was not very much more than Rs 175 crores. There is reason to believe that the estimates relating to revenue from new taxes are unduly conservative while much larger amounts can be mobilised through open market loans and sales of national savings certificates. The borrowing programme for 1970-71 has assumed gross receipts of Rs 455 crores. After allowing for the redemption of two maturing loans for Rs 293.30 crores, net borrowing will be Rs 161.70 crores against Rs 141 crores in the current year. Gross borrowing could be easily Rs 500 crores enabling the government to secure a net amount of even Rs 207 crores. With the likelihood of an accelerated growth of bank deposits in the latter half of the year and the maintenance of a higher liquidity ratio, the subscriptions could very well be of the dimensions indicated. Besides, the second stage of the borrowing programme for 1970-71 could be expected to be carried out under favourable circumstances as, notwithstanding the heavy pressure now being experienced by the banking system, there could be a sudden rise in deposits during the slack season if the estimates relating to food production in the 1969 agricultural season proved to be correct.

The first stage of the borrowing programme, however, will have to be completed in the next few weeks as the 4 per cent 1970 Loan is due for repayment on April 15, 1970, and is outstanding to the extent of Rs 178.25 crores. If the experience of 1969-70 is any guide, it can be expected that about 80 per cent of the outstanding amount will be converted into the new loan, which would mean that conversion subscriptions would be of the order of Rs 145 crores. With the compulsion on the part of the scheduled commercial banks to invest additionally Rs 50 crores for raising the liquidity ratio by a further one per cent to 27 per cent by the end of April and the anxiety of the Life Insurance Corporation, provident Funds and trusts to invest their funds in long-dated loans, it would not be surprising if the Reserve Bank decided to issue a long-dated loan for Rs 250 crores carrying interest at 5¼ per cent and maturing after 30 years. But for the recent upward trend in interest rates and the offer of more attractive terms to the purchasers of National Savings Certificates, the monetary authorities would have even thought of floating a 25-year loan carrying interest at 5¼ per cent with an issue price at a slight discount. With expert opinion clearly divided about what should be done in regard to changes in the interest rate structure it is doubtful whether the Reserve Bank will make any attempt to borrow on a cheaper basis. An announcement in this regard has to be made before the end of this month or early in April.

Excess Borrowing

In 1969-70, the 5¼ per cent 1999 Loan, offered at par, secured subscriptions to the extent of Rs 275.20 crores and 4¼ per cent 1976 loan for Rs 260.11 crores. The amount secured through these two loans was thus Rs 535.31 crores against the budget estimate of Rs 500 crores. As there was a funding operation for Rs 75 crores, the amount borrowed was Rs 216.31 crores. Excluding the funding operations, the net amount borrowed in 1969-70 was in excess of the budget estimates by Rs 35 crores.

In the second tranche of the borrowing programme in the next financial year also there will be no difficulty in mobilising the required amount as a short-dated loan for Rs 250 crores can be issued conveniently, the maturing 3 per cent 1970-75 Loans outstanding for

Rs 115.05 crores being redeemable only on October 15, 1970. The banking system may not find it difficult to extend liberal support to a short-dated loan in the slack season. On the last occasion the 4½ per cent 1976 Loan secured subscriptions for Rs 260.11 crores, cash subscriptions amounting to Rs 98.65 crores and conversion applications for Rs 161.46 crores. If a different strategy is considered desirable, there may be a reissue of the new long-dated loan for Rs 50 crores with the amount for the short-dated loan being fixed at Rs 200 crores. In that event the fresh accretions to the resources of the Life Insurance Corporation and other institutions, which are interested in higher yield, can be invested in the reissued long-dated loan. Whatever may be the techniques that will be adopted, the borrowing programme of the central government for the next financial year can be completed without difficulty and the overall deficit may prove to be much smaller if the growth in industrial and agricultural production is sustained and there is increasing monetisation of the economy with a faster spread of the banking habit and the active functioning of the post offices in the rural areas.

Ritual Rise of Postal Rates

HARDEV SINGH

YEAR AFTER year post and telegraph rates have been raised in an attempt to equate the revenue with the expenditure which has been steadily going up. The result is that, even after a fourfold increase in revenue during the past decade, the Posts and Telegraphs department continues to run at a loss. It is only the Telephone Department which is making substantial surplus and in fact is making up for losses in other departments. In other words, telephone users are paying more than the cost of the actual service rendered to them. It has been estimated that the telephone users are now paying nearly 40 per cent more than the cost of the services as against 13 per cent more paid by them in 1965-66.

Unfair Imposition

With the revision of rates in the present budget this percentage is likely to go up further. Consequently it is quite unfair to impose an additional burden of nearly Rs 2.55 crores in a year by increasing call charges beyond 750 calls in a quarter from 15 paise to 20 paise per call. This increase has followed closely the last year's steep rise in rates which added an annual revenue of Rs 6 crores. Last year the telephone rentals in big cities such as Bombay, Calcutta, Madras and Delhi were raised and additional charges were imposed for fixed time trunk calls. Already in the context of a judgment on telephone rates, the Tamil Nadu High Court has pointed out that in regard to fees there is and must always be a correlation between the fee collected and the services intended to be rendered. It also indicated that the owners of telephones should not be burdened with the losses incurred in the postal, telegraph and radio departments. Had the central government a sufficient sense of responsibility, it would not have so cavalierly disregarded these considerations.

Instead of continuously raising telephone rates, the department should try to improve its revenue position through efficient performance. For instance, the collection of telephone revenue in respect of bills issued were in arrears to the extent of nearly Rs 6 crores every year out of which the government's share in arrears in one year was to the extent of over Rs 3.25c rores. Similarly the financial position of the department can be improved by avoiding heavy delay in the submission of trunk bills which not only prove irksome to the subscribers but also delay the collection of revenues. The department should also evolve concrete methods of accurate and timely submission of bills so that they are paid regularly by the subscribers.

The Telephones Department should also improve its efficiency by utilising its capacity and thereby raise its revenue. It was estimated recently that as much as 13 per cent of the connectable capacity of telephone exchanges with 1,000 lines or above remained unutilised due primarily to a shortage of cables. This appears all the more serious when it is known that the gap between the demand for and the supply of telephones has progressively widened during the last few years. The average waiting time in cities such as Delhi, Bombay and Calcutta has been around six years and it is only marginally below that at many other places. It is rather strange that, although the shortage of telephone cables continued to persist, the government would not allow the private sector to manufacture these cables.

The upward revision of postal rates has been done in a big way in order to add an annual revenue of Rs 5.45 crores and these revisions include a higher supplementary fee for telegraphic money orders, which has been raised from 15 paise to 50 paise. Similarly money order commission for amounts beyond Rs 100 has been raised to 40 paise per every Rs 20. Till now it was 20 paise for money orders up to Rs 200 and 30 paise for money orders beyond Rs 200. This increase in money order rates is likely to prove prohibitive and may hit the postal department by channelising the remittance of money through bank drafts. Already there is a clear indication of people shifting away from money orders as a mode of remitting money. In 1968-69, for instance, 95 million money orders of the value of Rs 536 crores were sent by the public as against 97 million money order of the value of Rs 559 crores a year before. In other words there was a decline in the number of money orders by over three per cent and the amount transmitted declined by about five per cent. The post offices may well lose substantial revenue on money orders of amounts larger than Rs 100.

TABLE I

POSTS AND TELEGRAPHS TRAFFIC STATISTICS

	1967-68 Actual	1968-69 Estimated
	(In Millions)	
Postal articles (excluding Money orders)	6,188	6,185
Registered articles	176.5	169.6
Money orders ..	96.7	94.7
Savings bank transaction ..	64.8	71.1
Telegrams ..	49.9	47.5
(*i*) Trunk calls ..	62.9	73.0
(*ii*) S.T.D. calls ..	32.2	35.1
Value of money orders issued (in crores of Rs) ..	558.7	536.2
Telephones (in thousands) ..	1,017	1,117

It has been argued that these revisions have been dictated by the fact that the postal department is making losses and these losses are mostly on account of post cards. The department has continuously complained that it is not able to afford this cheap mode of communication and has continuously been increasing rates for other postal services. It would be proper for the government to take a decision once for all and give up the pretention of maintaining this social service and rationa-

lise the post card rate instead of every year raising rates of other items on this account.

Major losses in the postal department are also due to uneconomic post offices and in view of its persistent losses, the postal department should reconsider its policy of expanding post offices in rural areas. The department should ask itself whether the existing policy of retaining losing post offices on trial for over 10 years is not an extravagant indulgence The Post and Telegraph Tariffs Enquiry Committee has pointed out that "such a long period of trial for post offices and their retention on a permanent basis at even higher losses after this period of trial, result in considerable cumulative losses to the department. These continuing losses sap the resources generated in other areas of the department's activities , leaving little "for the development and expansion of (other) services even when justified by the needs of traffic." It has rightly recommended that "normally a period of four years or so should be considered enough for assessing whether a post office has developed traffic" and that "if it has not, the conclusion is clear that such an office is not likely to justify its continuance and further expenditure on it can hardly be regarded as developmental expenditure.

Expenditure Going Up

The expenditure of the postal branch in relation to its revenue had been going up since 1962-63. The expenditure as a percentage of revenue was 98.5 in 1962-63 but it increased to 114.2 in 1969-70. In absolute terms, in the year 1969-70 the expenditure of the branch was Rs 113.74 crores against a revenue of Rs 99.58 crores leaving a deficit of Rs 14.16 crores. This department is labour-intensive and its main expenditure is on establishment. The establishment expenditure has increased quite rapidly due to grant of enhanced dearness allowance to staff with retrospective effect. Moreover, other allowances also impose a substantial burden on the department.

In this context, the Tariff Enquiry Committee made a pointed reference to the fact that the expenditure incurred by the department on medical reimbursement, children's education allowance, overtime allowance has been "increasing alarmingly." A few cases have been quoted which illustrate the point. A postman in the pay scale Rs 75-95 drew Rs 2,220 as medical reimbursement in September 1967 and Rs 8,460 during the period April to October 1967. A clerk with a basic pay of Rs 335 drew Rs 1,959 as medical reimbursement in August, 1967 and Rs 10,482 from April to December, 1967. A class IV employee with a basic pay of Rs 76 drew Rs 1,428 as medical reimbursement in August, 1967 and Rs 9,192 from April to December 1967. A clerk with a pay Rs 240 per month drew Rs 975 as overtime allowance in October, 1967, and a total amount of Rs 5,552 on this account during the first 10 months of 1967. A munshi with a pay Rs 98 per month drew Rs 287 as overtime allowance in October, 1967, and a total amount of Rs 1,908 on this account during the first ten months of 1967. Table II below shows the rise in medical treatment expenditure and payment in respect of overtime allowance.

TABLE II

MEDICAL EXPENDITURE AND OVERTIME ALLOWANCES: 1961-62 to 1967-68

(Rs Crores)

Year	Medical treatment	O.T.A.
1961-62	0.67	0.90
1962-63	0.95	1.31
1963-64	1.28	1.45
1964-65	2.02	2.97
1965-66	2.94	3.97
1966-67	3.95	4.61
1967-68	4.08	4.56

A closer watch of organisation and methods is necessary so that efficiency and economy can be achieved within a reasonable time. A systematic effort has to be made to improve productivity by evolving time-saving techniques. The work study unit in the Posts and Telegraphs Department has been doing some work in this direction but the scope of its operations should be enlarged and expedited. The Tariff Enquiry Committee for instance, has emphasized that labour should definitely be saved in some areas of operation such as sorting of mail, cancellation of stamps and delivery of mail.

The budget proposes to raise an additional revenue of Rs 22 lakhs through increased rates of greeting telegrams from Rs 1.20 for first 8 words in ordinary telegram to Rs 1.40. Only last year these rates were raised from Re 1 to Rs 1.20. In 1962 the greeting telegrams were priced at 50 paise for 6 words which were raised to 75 paise for the first 8 words in 1963. The cost of a greetings telegram has increased, therefore, from 50 paise to Rs 1.40 bet-

TABLE III

RECEIPTS AND EXPENDITURE OF POSTS AND TELEGRAPHS DEPARTMENT

(Rs crores)

	Posts	Telegraphs	Radios	Telephone
1965-66				
Receipts	65.99	14.44	0.24	57.10
Expenditure	76.01	17.88	0.29	50.35
Deficit (—) or Surplus (+)	—9.02	—3.33	—0.05	+6.75
1966-67				
Receipts	70.15	16.96	0.32	71.92
Expenditure	84.90	20.35	0.18	56.81
Deficit (—) or Surplus (+)	—14.75	—3.39	+0.14	+15.11
1967-68				
Receipts	74.23	19.95	0.36	79.76
Expenditure	95.12	24.45	0.16	69.04
Deficit (—) or Surplus (+)	—20.89	—4.35	+0.20	+10.72
1968-69				
Receipts	93.98	22.52	0.44	92.26
Expenditure	107.22	26.80	0.44	76.36
Deficit (—) or Surplus (+)	—13.34	—4.48	..	+15.90
1969-70 (Revised)				
Receipts	99.58	23.92	0.63	108.18
Expenditure	113.74	28.83	0.49	86.14
Deficit (—) or Surplus (+)	—14.16	—4.91	+0.14	+22.04
1970-71				
Receipts (Budget)	110.47	26.80	0.63	118.91
Expenditure	120.77	31.53	0.50	95.78
Deficit (—) or Surplus (+)	—10.30	—4.73	+0.13	+23.13

ween 1962 and 1970, which apparently is an exhorbitant rise. The rate for ordinary telegrams for the first eight words were 80 paise before 1963. This was revised to one rupee for first 10 words in that year. In 1967 these rates were raised to one rupee for an ordinary telegram of eight words and in 1968 again these rates were raised to Rs 1.20 for an ordinary telegram of eight words. In other words a telegram which cost 80 paise before 1963 now costs Rs 1.40.

Phonograms which were free of any special charge till last year, started being charged at 20 paise extra for each booking after the last year's budget and now these rates have been increased to 40 paise. This increase again is unreasonable because telephonic booking of telegrams means reduced pressure on telegraph offices. The losses in the telegraph branch, in spite of these occasional increases in rates, have been increasing. In 1965-66, for instance the losses were around Rs 3.3 crores which in this year's budget are around Rs 4.73 crores. It seems that some basic reorganisation of the department is essential if the level of expenditure is at all to be eectively regulated.

Reactions to the Budget

R. V. MURTHY

THE BUDGET presented by the Prime Minister and Finance Minister on February 28, 1970, may well be described as a baffling budget, in the sense that those who are supposed to benefit from the so-called reliefs are not feeling quite certain that they will stand to benefit eventually. Even Para 35 of the budget speech (Part B) (so much commended by share market circles) which speaks of "leaving the present structure of corporate taxation more or less alone "is not accepeted as wholly accurate by India's leading taxation expert, Mr N.A. Palkhivala. The report in the daily press that there may be delay in implementing the family pension scheme for industrial workers must have perplexed this section of the community also. Political parties on the other hand, frankly suspect the figure of deficit financing indicated in the budget of (Rs 225 crores) as a gross underestimate. And students of economics are worried about the sure stresses and strains that must needs follow a sizeable stepping up of investment (total outlay of government = Rs 7,540 crores), the more so because much of it is to be outside the Plan expenditure.

All the same, the fact remains that Mrs Gandhi has got away with more praises for her budget than has fallen to the lot of any of her predecessors in the union Finance Ministry, but considered opinion feels this is more psychological than logical and there may be second thoughts and delayed reactions which may not be equally complementary. Mr Palkhivala has already characterised the budget as "politically clever" but "economically unsound". To him, the budget is imaginative "only in the sense that it imagines certain consequences will ensue from the proposed levies, which are directly contrary to one's experience of human affairs."

Be that as it may, in the prevailing economic conditions any budget has to be tested on the anvil of its effect on (i) production and productivity, (ii) price stability, (iii) monetary discipline on states, (iv) creation of employment opportunities, (v) returns from investment, in particular, in the public sector, (vi) balance of payments and (vii) saving and capital formation. Let us therefore, examine the likely effect of the budget on each one of these facts of our economic life.

It is difficult to see whether there is much in the budget proposals that will effect either production or productivity very favourably. Incentives to produce more there may be, but these apply to areas, such as dry farming, where the impact is bound to be inconsiderable. Provision of easier credit to new entrepreneurs may be all right, but it is difficult to recruit overnight the requisite talent and garner the necessary know-how. If the Prime Minister expects a substantial increase in the development outlays next year will by itself help growth and hence production, she is sure to be disillusioned. It is to assume that the important provison in all economic laws—other things remaining equal—will operate. It is amazing that the government's faith in the public sector ("state capitalism" as Mr Masani describes it) could persist even after its own assessment of the profits of running concerns (other than Hindustan Steel, be it noted) to be no more than a ratio 4.3 per cent gross profits, not net profits, to capital. Otherwise, it is difficut to explain its desire to add more to the number of these undertakings. If production is to be increased, those who are in a position to organise production in a big and systematic way must receive every encouragement. But it is precisely these people that are being deliberately prevented from making any contribution.

Production also presupposes the prevalence of peaceful conditions, that is, a sound law and order situation. What is the position today? Happenings in West Bengal and some other places are enough to dampen the enthusiasm of even the most optimistic entrepreneur and discourage him from launching on any new industrial project. Cordial employer-employee relations are another prerequisite. But, for the past three years (1967, 1968 and 1969) we have been experiencing a loss of over 17 million man-days every year, and the prospects in this behalf for 1970 also do not appear to be any the brighter. Unfortunately, the authorities in our country do not seem adequately to recognise the importance of industries. The ultimate success of any economy, even an advanced economy, depends, as Mr Harold Wilson, the British Prime Minister, recently said in New York, depends not on its monetary and financial policies but on the power of its industry. In our own country, in 1968-69 when agricultural production declined by 1.4 per cent, it was the increase in industrial production by 6.3 per cent that helped sustain our national income.

Pampering Labour

As for productivity, one cannot but despair seeing the systematic pampering of industrial labour by the government on the one hand, and the refusal of labour to accept any suggestion like productivity bargaining, on the other, to link increases in wages to higher productivity, as also the unmitigated opposition to the use of computers and other labour-saving devices even when there are accompanying assurances that no retrenchment of existing workers would follow such use.

To turn now to price stability. In the context of the recent upward trend in prices (5.5 per cent rise between November 15, 1969, and January 31, 1970) and the imposition of indirect taxes to the tune of Rs 135 crores, over and above the increases by the railways and the posts and telegraphs, the further large dose of deficit financing (estimated at Rs 225 crores but certain to go up further eventually) cannot but occasion concern, notwithstanding the Prime Minister's complacent remark that this deficit "should not cause concern in view of the present favourable supply conditions in regard to foodgrains." It may be recalled that, whilst framing even the third Plan proposals, the Planning Commission had warned against any higher deficit financing than Rs 850 crores over a five-year period. Already we have had a deficit financing of Rs 290 crores in 1969-70, which means that, over just a two-year period, alone, we have already gone in for a deficit financing of Rs 500 crores as

now estimated; if tax revenues do not rise as the government expects, as many fear, the resulting rise in deficit financing, together with deficit financing indulged in by the states, is bound to have disastrous consequences on our price structure.

The structure of prices is also influenced by the extent of monetary discipline practised by state governments. Monetary discipline on the part of our state governments is, if anything, conspicuous by its absence. Yet, for political reasons presumably, the centre not only refrains from rapping them on the head for any indiscipline but actually pampers them, even as it behaves vis-a-vis the heavily losing public sector projects.

After giving more assistance than before, it entertains the pious hope that they will not have recourse to unauthorised overdrafts from the Reserve Bank. In the 1970-71 budget, for instance, the states are to get Rs 275 crores by way of non-plan assistance to enable them to carry out their plan schemes in addition to a special assistance of Rs 175 crores to cover gaps in resources. At the same time, plan assistance to states also is Rs 20 crores higher at Rs 635 crores. In spite of the addition of Rs 470 crores besides what they will get by way of their share of central taxes and duties (in 1969-70, the states received Rs 104 crores more than the budget estimates), it cannot be definitely asserted that they will fulfil all their plan schemes. For, to do that, *i.e.* to meet their total plan outlay in the year of Rs 1,150 crores, the states will have also to raise additional resources on their own to the tune of Rs 200 crores.

At the rate at which one state after another is coming out with deficit budgets, it is on the cards that they will not be able to raise this additional Rs 200 crores, which means that there will be further deficit financing to the extent that they fall short of this target.

The government has claimed that one of the central objectives of its development plans is to create more employment and swears by them as the main instrument for increasing employment opportunities. It also speaks of certain specific orientation in many of its new schemes, in parriticular those in rural areas. But we are not told in concrete terms what the additional employment opportunities are going to be like as a result of all these.

Whatever juggling the authorities may indulge in to underestimate the extent of unemployment, this problem is something which is so patent that no one is going to be fooled. It is ironical that, though the 1.9 per cent increase in total employment in 1968-69 was contributed in the main by the larger establishments (according to official sources only), these are the agencies that are now sought to be prevented, in the name of monopoly and concentration of wealth, to expand further.

Revealing Details

As for returns from public sector undertakings which have now reached commanding heights, the references to the working of public undertakings, both departmental and non-departmental also both central and state, in the *Economic Survey* are revealing. It has been admitted, for instance, that the financial returns of a large number of these undertakings are "still unsatisfactory". In 1967-68, the financial results of only the 55 running concerns including Hindustan Steel, disclosed a net loss of Rs 35 crores. Excluding Hindustan Steel, the result was a net profit of Rs 3.3 crores on a total outlay of Rs 2,009 crores! For the year 1968-69, the latest available estimate is a return of 4 3 per cent (ratio of gross profits to capital employed).

The latest balance of payments position is no doubt better than in previous years and with the Special Drawing Rights facility also available since January last, there may not be any immediate pressure, but if one bears in mind the fact that it was not so much a spectacular rise in exports as a sizable fall in imports that contributed to the improvement, as also the distinctly larger imports that are likely to flow in 1970-71, if only to sustain a higher rate of industrial production, one would not allow oneself, not even absent-mindedly to take a complacent view of the position. It is in this connection that what the Finance Minister claims to have done to encourage exports becomes important. The main beneficiaries are only two of our traditional commodities, tea and jute, but even here the jute industry has not received the full measure of relief needed by it to compete in the world markets with its counterpart in Pakistan.

Since the present Finance Minister was primarily responsible for the devaluation decision, it was expected that she would seize this opportunity of undoing the avoidable harm to many of our export industries by saddling them with onerous export duties in the wake of devaluation. Unless the authorities realise that it is unwise, in the highly competitive conditions that obtain in the world markets today, to rely on export duties either to raise resources or even to restrain conspicuous consumption, the chances of our exports rising in a big way must be ruled out.

Crucial Problem

The sky is the limit for investment in India as Dr Brahmananda has stated. But the crucial problem is how to induce and mobilise the requisite savings. The picture presented by the *Economic Survey* in this behalf is not at all encouraging, in that the ratio of public saving to national income has gone down from 3.2 per cent in 1965 to one per cent in 1969, and this is amply borne out by the relevant investment indicator also. To take but one of them, *viz.*, the index of capital goods imports, there has been a fall of 50 per cent from 74 (base 1965-66—100) in 1966-67 to 50 per cent in 1969-70. It remains to be seen whether the reversal of Mr Morarji Desai's cheap money policy which Mrs Gandhi has attempted will make for higher rate of growth in investment. To ensure it, the Finance Minister should also have had a look at other inhibiting factors to investment. Instead, some of her proposals have the effect, it is feared, of retarding rather than reinforcing investment.

BUDGET DOCUMENTS

Stability as well as Social Justice

PRESENTING THE budget of the Government of India for 1970-71 in Parliament on February 28, the Prime Minister and Minister of Finance, Mrs Indira Gandhi, said that social, economic and political stability was not possible without the growth of productive forces and the augmentation of national wealth. She listed a number of measures which the government proposed to take in order to combine growth with a greater regard for the welfare of the most needy sections of society. At the same time, she outlined the new schemes being initiated by the government in order to tap rural savings. The full text of Part "A" of her budget speech follows :

I rise to present the Budget for the year 1970-71. The annual budget is the most important instrument through which we implement our successive Plans for development Before I proceed to delineate the broad features of our present economic situation and of the budget, I should like to spell out briefly the main ingredients of government's approach.

It is generally accepted that social, economic and political stability is not possible without the growth of productive forces and the augmentation of national wealth. Also, that such growth and increase in wealth cannot be sustained without due regard to the welfare of the weaker sections of the community. Therefore, it is necessary to devise policies which reconcile the imperatives of growth with concern for the well-being of the needy and the poor. Measures have to be devised which, while providing welfare, also add momentum to productive forces. Any severance of the vital link between the needs of growth and of distributive justice will produce stagnation or instability. Both must be avoided.

Strategy of Development

The provision of adequate employment opportunities is not just a welfare measure. It is a necessary part of the strategy of development in a poor country which can ill-afford to keep any resources unutilised or under-utilised. Greater attention to dry farming areas is not merely to avoid inequalities in the rural areas. It is also an essential part of any programme to achieve sustained increases in agricultural production. Encouragement to small enterprises and to new entrepreneurs is vital to build up managerial and entrepreneurial talent which is all too scarce today. Without some restraint on urban land values and individual ownership of urban property, we cannot adequately develop housing and other amenities necessary to wrest the maximum benefit from the vast productive investments already made in our over-crowded towns and cities. The weaker sections of the society are also the greatest source of potential strength. We cannot provide for all the urgent needs of society with our limited resources But a balance has to be struck between outlays which may be immediately productive and those which are essential to create and sustain a social and political framework which is conducive to growth in the long run.

Economic conditions in the country at present permit and indeed require a more vigorous effort to stimulate growth. During 1969-70 the first year of the fourth Plan, there is every likelihood of achieving an overall rate of growth of 5 to 5½ per cent. The modernisation of Indian agriculture is well on its way; and it has led to a substantial recovery in industrial production. There has been a welcome increase in foreign exchange reserves; and the general level of prices over the past two years has been relatively stable. At the same time, it is necessary to set up new capacity in a number of fields in order to sustain growing levels of consumption, exports and employment.

If the opportunities for growth, which are now available, are to be seized fully, the central and state governments must make adequate provision for developmental outlays in the coming year. Private investment in agriculture, small industry and construction has been buoyant for some time now: and there is a revival of interest in investment in organised industry. A decisive increase in Plan outlay in the public sector will also stimulate productive investment in the private sector.

Apart from providing for a significantly higher Plan outlay, the budget for 1970-71 makes special provision for a number of schemes which combine an element of social welfare with future growth potential. It is with this positive approach to problems of growth with stability and social justice, that we have sought to give new emphasis and a new sense of urgency to economic policy in recent months. The nationalisation of banks, for which there is overwhelming support in this Honourable House and the country at large, will, I am sure, be soon put on a stable footing. The Monopolies Act and the decisions that the government have already taken in the light of the recommendations of the Industrial Licensing Policy Inquiry Committee should help to avoid the concentration of economic power and provide encouragement to small and new entrepreneurs. At the same time, well-established industrial companies will be able to participate in the core sector and in industries with export orientation. It has also been decided that government as well as financial institutions should assume special responsibility to promote industrial development in selected backward areas. The fourth Plan, as it is now being revised, will take particular care to look after some of the urgent socio-economic requirements, such as the development of suitable techniques for dry farming areas, greater employment opportunities for landless labour, the adequate supply of drinking water and the improvement of urban environment in many of our congested metropolitan areas.

According to revised estimates, the deficit at the centre for 1969-70 is now estimated to be Rs 290 crores as against the budget estimate of Rs 254 crores. The transfer to state governments, on account of their share in central taxes and duties, has increased by Rs 104 crores over the budget estimates, largely as a result of the Finance Commission's award. A substantial provision of Rs 275 crores by way of non-Plan assistance to the states had also to be made so as to enable them to carry out their Plan programmes. As a result of continued decline in imports, collection under import duties and disbursements under external aid are not likely to come up to budget estimates. On the other hand, collections under income-tax and non-tax revenues and receipts from market loans will be larger.

Special Assistance

Since several states continue to have gaps in resources, it would be prudent to provide in advance for special assistance to them. Accordingly, it is proposed to provide Rs 175 crores in the budget next year to cover the gaps in the resources of certain states since otherwise it would be difficult for them to undertake worthwhile Plan programmes. Provision for Plan assistance to the states is also being increased from Rs 615 crores this year to Rs 635 crores next year. If state governments are able to raise additional resources and keep a careful watch on non-Plan expenditure, it should be possible for them to increase their Plan outlay from roughly Rs 950 crores this year to about Rs 1150 crores next year, i.e, an increase of the order of 20 per cent.

It is proposed to raise central Plan outlays, including those on centrally sponsored schemes, from Rs 1223 crores this year to Rs 1411 crores next year, i e, by roughly 15 per cent. The centre's Plan next year provides Rs 39 crores more for agriculture and allied programmes, Rs 84 crores more for transport and communications, Rs 31 crores more for power and Rs 28 crores more for social services, including family planning. The Plan outlay of the union territories is also being augmented from Rs 66 crores to Rs 76 crores.

Taking the centre, states and the union territories together, the Plan outlay will increase from Rs 2239 crores in 1969-70 to Rs 2637 crores in

1970-71, i.e. by about Rs 400 crores. At this stage, this represents a substantial effort to accelerate the pace of development. In adddition to the Plan provisions made in the budget, institutional finance to assist industry and agriculture will also be mobilised on a larger scale next year. With the considerable step up in Plan outlay and the increased provision of institutional finance, there should be significant increase in employment opportunities in the coming year.

Programmes of rural development which will be given special emphasis, with the help of Plan provisions and institutional finance, are summarised in a memorandum which is being separately circulated to Honourable Members. This memorandum also outlines some of the new initiatives which we propose to take in order to combine growth with a greater regard for the welfare of the most needy sections of society. I shall, therefore, refer to them only briefly here.

(*a*) Special schemes for small farmers are being taken up in 45 districts and research on dry farming techniques is being accelerated.

(*b*) It is proposed to provide next year a sum of Rs 25 crores for selected rural works programmes particularly in areas which are prone to famine. This provision will be outside the Plan and will form part of the amount set aside for drought relief during the year.

(*c*) An Urban Development Corporation with an authorised share capital of Rs 10 crores is being set up. The Corporation will borrow in the market to supplement its share capital and to set up a revolving fund for financing activities, such as slum clearance, housing and urban land development.

(*d*) A substantial provision has been made in the fourth Plan for the supply of drinking. water. I have written to the Chief Ministers that the bulk of this provision should be used to provide drinking water to those areas which have no easy access to this basic requirement rather than to improve existing facilities in bigger towns.

(*e*) To provide more comprehensive benefits to industrial workers, who are liable to pay contribution to the Employees Provident Fund at the rate of 8 per cent of their pay, it is proposed that a part of the contribution of employers and employees should be supplemented by a contribution from the government to make up a separate fund from which family pension as well as a lump sum payment in the event of death will be provided.

(*f*) The minimum pension as also family pension for central government employees is proposed to be increased to Rs 40 per month. This decision will apply to those receiving pension at present as well as to those entitled to pensions in future. For industrial employees also, the scheme, to which I referred earlier, provides for a minimum family pension of Rs 40 per month.

(*g*) To supplement existing schemes for school-feeding and the like, a beginning is being made with a programme to meet the nutritional requirements of the age group 0 - 3. A provision of Rs 4 crores is being made in the budget for children in tribal development blocks and in city slums. From time to time, the programme will be extended with the help of specially designed schemes to raise additional resources.

At the existing rates of taxation, revenue receipts are likely to increase from Rs 3587 crores this year to Rs 3867 crores next year. After allowing for statutory transfer to the states, the revenue receipts available to the centre will increase from Rs 2965 crores to Rs 3167 crores. Revenue expenditure next year is expected to increase by Rs 176 crores, of which Rs 68 crores is on Plan schemes and Rs 108 crores on non-Plan items. Total non-Plan expenditure has been restricted to the minimum and will increase by about 4 per cent.

Honourable Members will also be glad to note that the internal resources of public sector enterprises, which are available for their expansion, will increase from Rs 162 crores this year to Rs 202 crores next year. Market loans are estimated at Rs 162 crores next year as against Rs 141 crores in the current year. Receipts under PL 480 and other food aid, including some on revenue account, are expected to decline from Rs 239 crores this year to Rs 161 crores in 1970-71. Receipts under other aid should be more or less of the same order as this year. Taking account of all other items, including the provision for the Plan and for special assistance to the states outside the Plan, the capital account will show a deficit of Rs 365 crores. The revenue account is expected to show a marginal surplus of Rs 15 crores

Rural Savings

With growing prosperity in rural areas, it has become all the more important to tap rural savings for further development. Schemes to mobilise savings for a specific purpose are likely to have greater appeal. A model scheme of debentures to be issued by state-sponsored institutions has, therefore, been prepared and it is hoped that rural debentures, floated in accordance with the scheme, will be an additional instrument for the orderly mobilisation of rural savings. The extension of banking to rural areas will serve the same purpose. Even today, our postal system extends to many areas which cannot be covered by banks in the near future. The postal system, therefore, also needs to be harnessed for greater mobilisation of savings. At present our small savings schemes, including Post Office Savings Bank accounts, offer facilities for savings with a number of tax concessions. These tax concessions, however, are not of much interest to the rural population or to low income groups, which, by and large, are not subject to taxation of income. To these groups, a higher rate of interest would be more attractive than a lower rate with corresponding tax concessions. Accordingly, it is proposed to introduce a new series of time deposits, recurring deposits and savings

certificates which will carry higher rates of interest without any special tax concessions. The present tax-free facilities will also be continued with slightly higher rates of interest. The rates of interest on contributions to the Central Provident Fund and the Public Provident Fund are also being enhanced slightly. I shall have occasion later to refer to some changes in our direct tax structure, which are designed to promote higher savings. A memorandum giving the full details of all these changes is being separately circulated.

Towards Self-Reliance

THE BUDGET proposals for 1970-71 envisage additional taxation equivalent to Rs 170 crores of which Rs 125 crores will accrue to the centre and Rs 45 crores to the states. Summing up the new taxation measures, the Prime Minister and Minister of Finance, Mrs Indira Gandhi, said that the full effects of the changes in direct taxation would be felt in subsequent years. The gains to central and state revenues, she said, would be larger even without allowing for the normal growth factor.

The following is the full text of Part "B" of her budget speech :

The expenditure proposals for 1970-71 which I have just presented have been aimed at stimulating growth while providing for some measures of social welfare for the less privileged sections of the community. The same considerations of growth with social justice must govern the manner in which resources are raised to meet the requirements of government.

In a country like India, where government assumes the major part of the responsibility for the promotion of capital formation, the government budget should yield a substantial revenue surplus to take care of a part of the needs on capital account. This is all the more so at a time when net receipts under foreign aid and concessional imports of foodgrains are declining in keeping with our objective of achieving self-reliance in the shortest possible time. At existing rates of taxation, the revenue account for 1970-71 will yield only a nominal surplus. The ratio of taxation to national income in India is among the lowest in the world and over the recent past it has declined from the level of a little over 14 per cent which was already reached in 1965-66. There is thus need to enlarge the tax base, so as to meet adequately the continuing requirements of growth and social welfare.

Curbing Evasion of Taxes

In enlarging the tax base, our first concern must be to ensure that the taxes which are already levied are not avoided or evaded by devices which just manage to keep on the right side of the law. Accordingly, I have tried to plug some major loopholes in our tax system and to withdraw some of the concessions which have outlived their utility. Taxation is also a major instrument in all modern societies to achieve greater equality of incomes and wealth. It is, therefore, proposed to make our direct tax system serve this purpose by increasing income taxation at the higher levels as well as by substantially enhancing the present rates of taxation on wealth and gifts. Because of the urgent need to restrain speculative increases in urban land values and individual holdings of urban property, the taxation of urban land and buildings is being substantially increased. At the same time, the concessions available at present to stimulate savings are being rationalised, so as to make them more effective. Some marginal relief in direct taxation is also proposed for low income groups. In keeping with the need to stimulate higher production and investment, no significant change in corporate taxation is proposed.

Nearly 75 per cent of central tax revenues are derived from indirect taxation, i.e., from customs and excise duties. Any attempt to impart greater strength to the fiscal system, therefore, cannot disregard the scope for increase in indirect taxation. The proposals in this field are designed primarily to raise additional resources in a manner which helps our progress towards self-reliance and restrains the consumption of certain commodities. Such restraint is necessary from the economic or the social point of view. By and large, the additional taxation of investment goods or producer goods has been avoided and the bulk of the increase is in respect of final consumer goods. Wherever it has been necessary to touch items of common consumption, an attempt has been made to safeguard the consumption of the poorer sections of the community to the maximum extent possible.

The marginal rates of income taxation will be increased progressively on all personal incomes above Rs 40,000 per year. With the addition of the surcharge at 10 per cent, the maximum rate of 93·5 per cent will now be reached in the slab over Rs 2 lakhs as against 82·5 per cent in the slab over Rs 2 lakhs at present.

Simultaneously, the existing rates of ordinary wealth tax are being enhanced. At present, these rates vary from 0·5 per cent to 3 per cent. They will now vary from 1 per cent at the lowest slab to 5 per cent at the highest slab. For the individual, who derives his entire income from wealth, the combined effect of income and wealth taxation, as now proposed, will impose an effective ceiling on income after tax, when such income reaches approximately Rs 25,000 per annum. On the other hand, there will be an inbuilt incentive in favour of earned incomes. When income is wholly earned, for example, there will be no absolute ceiling, as the highest marginal tax of 93·5 per cent will leave some room for increase in income after tax at all levels.

Ceiling on Urban Property

Honourable Members are aware that we are at present examining practical means of imposing a ceiling on urban property. While the legal and other aspects of the matter are being examined, it is proposed to increase the additional wealth tax on urban lands and buildings, so that the objective of a ceiling on urban property is achieved, at least in part within the framework of the power already available to the Centre. At present, the additional wealth tax on urban lands and buildings is leviable, in the case of individuals and Hindu undivided families, on the value of lands and buildings situated in cities and towns with a population exceeding one lakh and with an initial exemption ranging from Rs. 4 to Rs 7 lakhs in different categories of cities. The tax is leviable on the balance at rates ranging from 1 per cent to 4 per cent. The maximum rate is reached when the value of urban lands and buildings exceeds Rs 19 to Rs 22 lakhs. It is now proposed to levy a tax of 5 per cent on the value of urban lands and buildings in excess of Rs 5 lakhs and at the rate of 7 per cent on the value in excess of Rs 10 lakhs. No distinction will be made in regard to the exemption on the basis of the population of the area, in which the properties are situated. The definition of an urban area is also being enlarged to include areas within the limits of any municipality or other similar authority having a population of 10,000 or more, with powers to cover by notification areas up to 8 kilometres outside such limits. Business premises will continue to be excluded from the proposed levy as at present. However, guest houses maintained by those liable to pay this tax will not be reckoned as business premises. Provisions are also being made to prevent avoidance of the tax by transfer, from individual or joint Hindu family ownership, to ownership by partnership firms, associations of persons and closely held companies. Another measure which is intended to serve a similar purpose, provides for the taxation of capital gains arising from the sale or transfer of agricultural land situated within urban areas.

One of the major devices leading to tax evasion and avoidance is the creation of private trusts. At present discretionary trusts are taxed on their income and wealth, at the rates applicable to individuals. These lower rates lead to the proliferation of such trusts. It is proposed that in future, discretionary trusts would be taxed at a flat rate of 65 per cent on their incomes and 1·5 per cent on their wealth or at the rates applicable in the case of individuals, whichever is higher. Provision is, how-

ever, being made for exemption from these flat rates for certain categories of existing discretionary trusts.

In the case of charitable and religious trusts, exemption from tax would be allowed only in respect of income actually applied to the purposes of the trust in the same year, or within three months of the close of the year. Further, the exemption will be forfeited altogether if the trust funds, constituting its corpus or income, are invested in a concern in which the author or founder of the trust or any of his relatives is substantially interested and the amount of the investment exceeds 5 per cent of the capital of that concern. These provisions will curb the use of the funds of charitable and religious trusts to acquire control over industry and business. Some changes are also being made to prevent indirect benefits being enjoyed by the authors or founders of such trusts. On the other hand, the present complete exemption from tax, which applies to universities and other educational institutions, will also be applied in the case of hospitals and other similar institutions.

At present, one residential house is exempted from wealth tax, irrespective of its value, if it is situated in a place with a population not exceeding 10,000. For houses situated in larger towns, the monetary limit for exemption is Rs 1 lakh. The monetary limit of Rs 1 lakh will now be applied uniformly irrespective of the location of the residential house.

Gift Tax Revised

The rates of gift tax are also being revised to bring them more in line with the rates of estate duty and the present exemption limit of Rs 10,000 in respect of gifts made during a year is being lowered to Rs 5,000.

Those who are united in Heaven should not be put asunder by a mere tax collector. On this view, the income and wealth of husband, wife and minor children should be aggregated for purposes of income and wealth taxation. But in matters like this, enforce dunity sometimes leads to sharper division. It is, therefore, proposed to examine the matter in greater detail and to bring forward the necessary legislation subsequently, giving opportunity for discussion in this House and outside.

At present, income up to Rs 1,000 from investment in the Unit Trust and up to another Rs 1,000 of dividends on shares in Indian companies as well as the whole of the interest earned on a number of small savings schemes and Post Office savings accounts is exempt from income-tax. There is no season why a distinction should be made between such investments, and investments in other financial assets, such as securities of the central or state governments, approved rural debentures, deposits in banking companies, co-operative banks and land mortgage or land development banks and the new small savings scheme and Post Office deposits accounts which are not to enjoy any special tax concessions. It is, therefore, proposed that income up to Rs 3,000 will be exempt from income-tax, provided it is derived from investments in Unit Trust or shares in Indian companies or any of the other categories which I have just mentioned. The exemption in respect of small savings schemes and Post Office savings accounts, where special tax concessions are available, will continue to be available additionally.

Similarly, it is proposed that, apart from the present general exemption of Rs 1 lakh in the case of individuals and Rs 2 lakhs in the case of Hindu undivided families and a residential house up to the value of Rs 1 lakh, investments in a wide variety of financial assets up to a total of Rs 1·5 lakhs will be exempt from wealth tax. Even today, investments in specified small savings certificates, Post Office savings accounts and five-year fixed deposits with the central government are exempt from wealth tax and any one who takes the maximum advantage of these provisions can claim exemption up to Rs. 1·2 lakhs. The enlarged limit Rs 1·5 lakhs will now include investments in the Unit Trust, shares of Indian companies, securities of the central or state governments, approved rural debentures, the new small savings schemes and Post Office deposit accounts and deposits in banking companies, co-operative banks and land mortgage or development banks.

On the other hand, in view of these generalised provisions to encourage savings, there is no reason to continue the scheme of tax credit certificates in respect of investments in new equity issues. These will accordingly be discontinued in relation to new equity issues after 31st March 1970. Existing concessions regarding contributions to life insurance, provident funds, etc, will continue.

Suggestions have been made, from time to time, that the exemption limit for incoem-tax should be raised as a measure of relief to lower income groups and in the interest of better tax administration. It has been urged that by removing a large number of small assessees from the scope of income taxation, income-tax officers will have more time to devote to larger cases where the gain to revenue would be correspondingly greater. In a poor country like ours, the present exemption limit which varies from Rs 4,000 to Rs 4,800 in accordance with the number of dependents, cannot be considered unreasonably low in relation to the average level of income in the country. At the same time, there is considerable force in the argument that tax administration would improve if income-tax authorities did not have to devote so much time to smaller cases. Faced with this dilemma, I have decided to appeal to the higher court of family planning and I propose to do away with the present system where exemptions related to the number of dependents. In future, a uniform exemption limit of Rs 5,000 will apply in the case of all non-corporate assessees irrespective of whether they are married or have any childern. This will make for greater administrative simplicity and give a small benefit to all income-tax payers. The relief will be naturally greater for those who continue to seek relief from matrimony or parenthood as well. The change in respect of the exemption limit would involve some loss of revenue. But I have taken no debit for it as it should be more than offset by the improvement in tax administration resulting from greater concentration on cases involving the bigger assessees.

It is also proposed to provide a minimum deduction of Rs 20 per month in lieu of the cost of travel to work to all salaried assessees. At present, deductions ranging from Rs 5 per month to Rs 250 per month are permissible for people who travel to work on a bicycle, motor-cycle, scooter, moped or a motor car. The deduction of Rs 20 per month would be available to those who travel to work on a bicycle or by public

conveyance or by any other mode. At the same time, the higher deduction of Rs 250 per month for a motor car which is applicable to higher income groups is being reduced to Rs 200 per month, as there is no reason why those who presumably own a more expensive car should be given a larger deduction. On balance, the revenue loss from travel concession to the lower income groups would be met by the corresponding gain from the reduction in the concession to the higher income group.

It has been decided to leave the present structure of corporate taxation more or less alone in the interest of maintaining a stable climate for investment decisions. The only significant change is that all entertainment expenditure incurred in India in business and the professions will now be disallowed in computing profits. Similarly, expenditure on guest houses, other than holiday homes for the benefit of employees on leave, will be disallowed. Those who enjoy the hopitality of their business friends should now no longer find their sense of gratitude diminished by the thought that a part of the hospitality is really paid for by the Exchequer.

The combined effect of the increases in direct taxation in a full year would be a gain to revenue of Rs 36 crores. In fact, when the measures to plug loopholes such as the revised procedure for the taxation of trusts become fully effective, the revenue gain will be substantially larger. The additional revenue from wealth tax will become available only in 1971-72. The additional revenue from income-tax also will be available only in part during 1970-71 by way of advance tax and deductions at source. Thus, despite the substantial measures of additional direct taxation, the net addition to the centre's resources from these changes in 1970-71 would be Rs 5 crores only. But it will rise to Rs 23 crores in 1971-72. The states will gain to the extent of Rs 10 crores in 1970-71 and Rs 13 crores in 1971-72.

Indirect Taxation

Turning now to indirect taxation it is proposed to abolish or reduce export duties on a number of items so as to maintain their competitive position in world markets. The duty on jute canvas, jute webbings, jute tarpaulin cloth and manufactures thereof is being reduced from Rs 500 to Rs 200 per metric tonne. The most important change relates to tea, where the export duty is being abolished altogether. At the same time, the excise duty on loose as well as package teas is being raised with the provision for *ad hoc* rebate on exports at rates varying with the price of exported tea. On balance, the duty burden on the export of all teas will be reduced with a margin in favour of teas fetching a higher value so as to encourage the export of quality teas. The export duty reductions will mean a loss in revenue of Rs 9·75 crores.

In order to give impetus to import substitution, the import duty on machinery is being raised from 27 per cent to 35 per cent *ad valorem*. This increase, however, will not apply to the machinery which is required for the initial setting up of projects, or for substantial expansion of existing projects, whether in the public or the private sector. The import duty on motor vehicle parts, pharmaceutical chemicals and non-electrical instruments, apparatus and appliances will be increased by 10 per cent *ad valorem*. The duty on certain plastic material and nichrome and other electrical resistance wires will be raised from 60 per cent to 100 per cent *ad volorem*.

There is a proposal regarding customs duties which is intended neither to replace imports by domestic production nor to produce revenue. In order to curb conspicuous consumption and as a modest gesture of personal, if not political, reconciliation, I propose to increase the duty on whisky, brandy, gin and wines.

Inclusive of additional duties corresponding to the changes in excise duties to which I will soon turn, the additional revenue from import duties will amount to Rs 29·75 crores. Thus, the net gain in customs revenue after adjusting the export duty loss will be Rs 20·00 crores.

It has often been suggested that the scope for excise taxation should be widened to include taxation at a low rate of about 10 per cent on practically the whole range of manufactured products. Without going that far, it is proposed to levy a 10 per cent *ad valorem* excise duty on a number of new items including office machines, metal containers, sparking plugs, stainless steel blades, slotted angles, iron safes and safe deposit vaults. The levy on office machines will cover items like typewriters, calculating machines, cash registers, cheque-writing machines, computers and intercom devices. The duty on metal containers will be confined to those intended for the packaging of goods for sale, including casks, drums, cans, gas cylinders and rigid containers. The additional revenue from these new duties will amount to Rs 10·40 crores.

Similarly, among chemical products, duty at the rate of 10 per cent *ad valorem* will now be levied on calcium carbide, bleaching powder and sodium hydrosulphite and the present duty of 5 per cent on soda ash and caustic soda will be raised to 10 per cent. An excise duty of Rs 300 per metric tonne is also being levied on synthetic rubber. These changes will bring in an additional revenue of Rs 5·30 crores.

A 10 per cent *ad valorem* duty was levied last year on prepared and preserved foods. The scope of the duty was, however, limited by notification to preserved and canned fruits, jams, jellies, fruit juices, squashes and certain meat products. I propose now to remove the bias against fruits and meat by extending the scope of the levy to include products such as vegetable juices, synthetic syrups and sherbets, de-hydrated peas, malted foods, instant coffee, instant tea, jelly crystals, custard and ice-cream powders, biscuits, coco-powder, drinking chocolate, pasteurised butter, processed cheese, branded aerated waters, glucose and dextrose. I hope Honourable Members will not accuse me of having preferences of my own as, even under my proposals, aerated waters, biscuits, butter and cheese will be taxed only when manufactured with the aid of power and there will be total exemption from tax for baby foods and branded 'deshi' ghee. These proposals will yield an additional revenue of Rs 8.68 crores.

The duty on sanitary ware and glazed tiles of porcelain will be raised from 15 per cent and 10 per cent respectively to 25 per cent. The duty on room air-conditioners will be raised from 40 per cent to 53⅓ per

cent and a similar increase is also being made in respect of larger refrigerators with a capacity exceeding 165 litres. The duty on parts of refrigerators, air-conditioning plants and machinery is also being raised from 53⅓ per cent to 66⅔ per cent. Components and machinery required for cold storage plants air-conditioning of hospitals run by government, local bodies and public trusts, as well as factory establishments will, however, be exempted from the scope of the increase. It will be seen that small size refrigerators will not be affected. I propose, very reluctantly, to withdraw the exemption in favour of television sets and impose a duty of 20 per cent *ad valorem*. The gain to revenue from these measures will be Rs 2·24 crores.

In the case of aluminium, the existing specific duties are being replaced by *ad valorem* duties. With a certain degree of rationalisation, this will produce an additional revenue of Rs 4·70 crores The duty on rigid plastic boards and unsupported P.V.C. sheets is also being rationalised by transferring the incidence to the end product and this will yield an additional revenue of Rs 96 lakhs.

It is proposed to increase the basic excise duty on polyester fibre of 2 deniers or less from Rs 21 to Rs 25 per kilogram with a corresponding increase in special excise duty. The present nominal duty of 7·8 paise per sq metre on artificial silk fabrics which include rayon, nylon, terylene, terycot and terywool fabrics is being replaced by *ad valorem* duty ranging from 3 per cent to 10 per cent. The duty will vary according to the value of the fabric and in the case of the cheaper varieties, whose wholesale price is less than Rs 2·50 per sq. metre, there will in fact be some relief as compared to the present position. I propose to make no change in relation to cotton fabrics with the exception of a minor measure of rationalisation, whereby certain fabrics at present taxed at specific rates, will be subjected to *ad valorem* levy. The proposals on synthetic fibre and artificial silk fabrics will yield an additional revenue of Rs 13·78 crores.

Restraint on Petrol

The demand for petroleum products has been increasing very rapidly and it is necessary to exercise some restraint in the interest of saving valuable foreign exchange. It is also necessary to curtail the adulteration of diesel oil by kerosene, which has assumed substantial proportions, and to discourage the use of furnace oil as a substitute for other fuels such as coal. Accordingly, the duty on motor spirit is proposed to be increased by 10 paise per litre, on superior kerosene by 2 paise per litre and on furnace oil by 2 paise per litre. The additional excise duty on these three items will yield a revenue of Rs 39·56 crores of which Rs 21 36 crores will be in respect of motor spirit and Rs 9·2 crores in respect of kerosene. The increase in the duty on furnace oil will not apply to such oil used in coastal shipping and for electricity generation and there will be no change in the duty on inferior kerosene. Honourable Members will also note that the increase in the price of superior kerosene will be only modest, i.e., 3·5 per cent.

I am sorry that the smoker's pocket has to be touched once again. The duty on cigarettes is being enhanced with the increase ranging from 3 per cent to 22 per cent *ad valorem* depending on the value slabs. The cheaper varieties of cigarettes will go up by only one or two paise per packet of 10 cigarettes. Assuming that the smoking community remains steadfast in its devotion, the additional revenue from this measure will be Rs 13·50 crores.

As already mentioned, the excise duty on tea is being raised in order to release larger quantities for export particularly of quality teas. There will be no increase in the duty on loose tea produced in zone one and only a marginal increase of 10 paise per kilo on teas produced in zone two. For other zones, the increase varies from 45 paise to one rupee per kilo. After allowing for the rebate on export, there will be an additional revenue of Rs 7·87 crores which will be more than offset by the loss in revenue from the abolition of the export duty on tea.

A uniform duty of 23 per cent *ad valorem* was levied last year on both levy sugar and free market sugar. Prices of sugar in the free market have declined substantially since then. Accordingly, it is proposed to increase the duty on free market sugar from the present level of 23 per cent to 37½ per cent *ad valorem*. In the case of levy sugar, which accounts for 70 per cent of the total, there would only be a marginal rounding off of the present rate from 23 per cent to 25 per cent. In line with the step up on free sugar, though not to the same extent, the tariff rate of duty on khandsari sugar is being increased from 12½ per cent to 17½ per cent. But as far as the rates under the compounded levy system are concerned, which most of the producers elect to adopt, there will be a reduction on the present rates which are being revised keeping in view the fall in prices The net additional revenue from sugar is estimated at about Rs 28·50 crores.

There are also a number of changes proposed in the excise duty structure by way of rationalisation, simplification or clarification of the present position. The statutory rate of duty on tin plates, for example, is being raised from Rs 375 to Rs 400 per metric tonne, in order to remove the present anomaly of the indigenous tin plates paying a higher cumulative duty than the additional duty borne by imported tin plates. The excise duty on paints and varnishes manufactured by units not employing power will be wholly exempted as also the duty on fertilizer mixtures made out of fertilizers which have already paid duty irrespective of whether such mixtures are produced by power or not. Some relief is also being accorded in the case of strawboards and millboards by revising the excise duty exemption at certain levels of production. These measures of relief in excise duties will involve a loss in revenue of Rs 43 lakhs. Certain enabling provisions of the Finance Act 1969 are also being continued.

The total effect of all these proposals relating to excise duties will be an additional revenue gain of about Rs 135 crores, of which Rs 100 crores will accrue to the centre and Rs 35 crores will be the share of the states and union territories.

Posts and Telegraphs

The Posts and Telegraphs Department is likely to be in deficit next year also. Accordingly, postal, telegraph and telephone tariffs will be revised to some extent from dates to be notified. These revisions are outlined in a memorandum being circulated with the budget papers. Briefly there will be some increase in postal tariffs in respect of parcels,

registration fee, despatch of value payable articles, money order commission, supplementary fee for telegraphic money orders and book, pattern and sample packets. Phonograms and Greetings telegrams will cost a little more. Charges for telephone calls beyond the first 750 calls in a quarter will increase from 15 paise to 20 paise per call. Honourable Members will note that services such as post cards and inland letter cards, which are generally used by common people, are not being touched; in the case of money orders also no increase is being made up to Rs 100. The proposed changes will yield Rs 8·22 crores in a full year and would leave for next year a surplus of Rs 1 crore after meeting the anticipated revenue deficit. The effect of these changes has been accounted for in reckoning the total internal resources of public undertakings.

To sum up, the measures for the additional taxation proposed will yield a total revenue of about Rs 170 crores in 1970-71 of which Rs 125 crores will accrue to the centre and Rs 45 crores to the states. In subsequent years, when the full effects of the changes in direct taxation will be felt, the gain to central and state revenues would be larger even without allowing for the normal growth factor. As a result, the budgetary gap at the centre next year will be of the order of Rs 225 crores as against the revised estimate of Rs 290 crores for the current year. In view of the recent upward pressure on prices and the substantial increase in money supply over the past year, some reduction in deficit financing is clearly desirable. At the same time, a deficit of the order of Rs 225 crores should not cause concern in view of the present favourable supply conditions in regard to foodgrains. The Reserve Bank has already taken a number of steps recently to control credit; and with continued vigilance in this regard, the deficit in the government budget now proposed should pose no threat to the general stability of prices. The central budget has provided adequately for the Plans for the states not only by increasing Plan assistance and by providing for substantial non-Plan assistance but also by raising additional resources in a manner which would bring considerable gains to the revenues of state governments. I hope that against this background, the states will be able to look after their Plan and non-Plan needs without recourse to unauthorised overdrafts from the Reserve Bank.

Sir, before I conclude, I should like to say that in presenting my first Budget to this Honourable House, I have become acutely aware of the challenges as well as the constraints of the contemporary epoch of development of our national economy. At the very beginning of my speech I endeavoured to set out the broad framework within which this budget is cast. That framework, I believe, is consistent with the political, economic and social realities of our country. Convinced as I am of its essential soundness, there is no alternative but to tread a difficult but determined course. If the opportunities for growth which are so much in evidence are to be seized fully, no effort must be spared in raising resources for the purpose. To flinch from this effort at this stage would be to impose even heavier burdens in the years to come. If we allow the present momentum of growth to wane for the sake of some purely temporary advantage, we will deny ourselves the cumulative benefits of a higher rate of growth for all time to come. If the requirements of growth are urgent, so is the need for some selective measures of social welfare. The fiscal system has also to serve the ends of greater equality of incomes, consumption and wealth, irrespective of any immediate need for resources. At the same time, the needs of those sectors of our economy which require private initiative and investment must also be kept in mind in the interest of the growth of the economy as a whole. I can only hope that the proposals I have just presented steer clear of the opposite dangers of venturing too little or attempting too much.

Finance Bill, 1970 : Proposals Explained

THE TEXT of the official memorandum explaining the provisions in the Finance Bill, 1970, is given below (clauses referred to are clauses in the Bill).

The provisions in the Finance Bill, 1970 in the sphere of direct taxes relate to the following matters :—

(*i*) Prescription of the rates of income-tax (including surcharges where applicable) on incomes liable to tax for the assessment year 1970-71; rates at which tax is deductible at source during 1970-71 from interest (including interest on securities), dividends, salaries and other categories of income liable to such deduction under the Income-tax Act; and the rates for computation of advance tax and charging of income-tax on current incomes in certain cases for the financial year 1970-71.

(*ii*) Amendment of the Income-tax Act, 1961 with a view to providing greater incentives to savings and investment; plugging loopholes in the law leading to tax avoidance, particularly through the medium of Trusts; strengthening the administrative machinery of the Income-tax Department; providing tax reliefs and avoiding inconvenience to assessees in certain spheres; and a few other matters.

(*iii*) Amendment of the Wealth-tax Act, 1957 with a view to reducing disparities in the distribution of wealth and restraining speculative increases in urban land values and individual holdings of urban property; and for a few other matters.

(*iv*) Amendment of the Gift-tax Act, 1958, to bring about greater rationalisation between rates of gift-tax and estate duty so as to reduce opportunities for avoidance of estate duty liability through the making of gifts.

(*v*) Amendment of the Unit Trust of India Act, 1963, to attract investment in units by non-residents.

(*vi*) Amendment of the Companies (Profits) Surtax Act, 1964, consequential to one of the amendments to the Income-tax Act.

2. The Bill follows the principle (adopted since 1967) that changes in the rates of tax as also in other provisions of the tax laws should, ordinarily, be made operative prospectively in relation to current incomes, and not in relation to incomes of the past year. The substance of the main provisions in the Bill relating to direct taxes is explained in the following paragraphs.

INCOME-TAX

I. Rates of income-tax in respect of incomes liable to tax for the assessment year 1970-71.

3. The rates of income-tax (including surcharges on income-tax) on incomes liable to assessment for the assessment year 1970-71 in the case of individuals, Hindu undivided families, firms and other categories of non-corporate taxpayers are the same as those laid down in Paragraphs A to D of Part III of the First Schedule to the Finance Act, 1969 for the purpose of computation of advance tax, deduction of tax at source from "Salaries" and computation of the tax payable in certain special cases during the financial year 1969-70. These rates have been specified in Paragraphs A to D of Part I of the First Schedule to the Bill. The Table in Annexure A shows the tax (including surcharge) payable at these rates in the case of individuals in different personal circumstances (unmarried, married, married with one child, and with two or more children) at selected levels of total income ranging from Rs 4,000 to Rs 10,00,000.

4. In the case of the Life Insurance Corporation of India and other companies, the rates of income-tax on incomes assessable for the assessment year 1970-71 are the same as those laid down in Paragraph E and F of Part III of the First Schedule to the Finance Act, 1969 for computation of advance tax payable during the financial year 1969-70. These rates have been specified in Paragraphs E and F of Part I of the First Schedule to the Bill.

II. Rates for deduction of tax at source during the financial year 1970-71 from incomes other than "Salaries".

5. The rates for deduction of tax at source during the financial year 1970-71 from incomes other than "Salaries" (i.e. Interest on securities, other categories of interest, dividends, and other categories of non-salary income of non-residents) are the same as are applicable under Part II of the First Schedule to the Finance Act, 1969 for deduction of tax at

source during the financial year 1969-70. These rates have been set fort in Part II of the First Schedule to the Bill.

III. Rates for deduction of tax at source from "Salaries", computation of advance tax and charging of income-tax in special cases, during the financial year 1970-71

6. The rates for deduction of tax at source from "Salaries" in the case of individuals during the financial year 1970-71, and also for computation of advance tax payable during that year in the case of all categories of taxpayers, have been specified in Part III of the First Schedule to the Bill. These rates are also applicable for deduction of tax at source during 1970-71 from retirement annuities payable to partners of registered firms engaged in certain professions (chartered accountants, solicitors, lawyers, etc.) and for charging income-tax during 1970-71 on current incomes in special cases, e.g. provisional assessment of shipping profits arising in India to non-residents, assessment of persons leaving India for good during the current assessment year, etc. These rates are different from the rates of tax specified in the Bill for the assessment of incomes liable to tax for the assessment year 1970-71 in certain respects as explained in the following paragraphs.

7. *Individuals, Hindu undivided families, unregistered firms, associations of persons, etc.* At present, the rates of basic income-tax on the incomes of these categories of tax payers rise progressively from 5 per cent on income in the slab Rs 1 -5,000 to 75 per cent on incomes in excess of Rs 2,50,000. A union surcharge at 10 per cent of the basic income-tax is also leviable in all cases. The progression in the rates of tax is brought about by subjecting income in successive slabs to tax at steadily increasing rates. Thus, on income in the first six slab of Rs 5,000 each (covering a span of Rs 30,000), the present rates are, respectively, 5 per cent, 10 per cent, 17 per cent, 23 per cent, 30 per cent and 40 per cent; in the next two slabs of Rs 20,000 each (covering the range Rs 30,001-70,000), the rates are, respectively, 50 per cent and 60 per cent; in the next higher slab covering a span of Rs 30,000 (Rs 70,001-1,00,000), the rate is 65 per cent; on the next slab covering a span of Rs 1,50,000 (Rs 1,00,001 -2,50,000), the rate is 70 per cent; and on income in the slab above Rs 2,50,000, the rate is 75 per cent

8. From the tax as computed at these rates, certain deductions are made, at present, in the case of resident individuals and Hindu undivided families only, so as to afford them some relief according to their personal circumstances. Thus, in the case of a resident unmarried individual, the deduction from tax is Rs 125, which is calculated on a personal allowance of Rs 2,500 at the rate of 5 per cent., being the rate of tax applicable, under the rate schedule, to income in the initial slab of Rs 5,000. The deduction in the case of a resident married individual, who does not have any dependent child, as also in the case of a resident Hindu undivided family having no minor coparcener, is Rs 200 (5 per cent. of Rs 4,000) which is made up of the allowance for an unmarried individual, namely Rs 125, and the allowance for a spouse, namely Rs 75. The spouse allowance of Rs 75 is not available to an individual whose spouse has a taxable income. In other words, where both husband and wife have independent taxable incomes (i.e. income exceeding Rs 4,000 in each case) neither of them is entitled to the spouse allowance of Rs. 75; each is entitled only to the deduction as for a single individual, namely Rs 125. There is a further deduction of Rs 20 (5 per cent of Rs 400) for each dependent child or minor coparcener, for a maximum of two children or minor coparceners, in the case of a resident married individual or Hindu undivided family, as the case may be. In addition, a resident married individual having a total income not exceeding Rs 10,000 and supporting a dependent parent or grand-parent receives a further deduction of Rs 20 from his tax. The cumulative effect of these deductions on account of personal allowances, in the case of a resident married individual having two or more dependent children, or a resident Hindu undivided family having two or more minor coparceners, is that no tax is payable on the first Rs 4,800 of the total income. Where such individual has a total income not exceeding Rs 10,000 and supports a dependent parent or grand-parent, no tax is payable by him on the first Rs 5,100 of his total income.

9. The deductions on account of personal allowances, as stated in

the preceding paragraph, are not available in the case of unregistered firms, associations of persons and other categories of non-corporate taxpayers, nor are these available in the case of non-residents. However, it is specifically provided, at present, that no tax is payable in the case of a resident non-corporate taxpayer, where the total income does not exceed a specified "small income exemption limit." The "small income exemption limit" is Rs 4,000, in the generality of cases, and Rs 7,000 in the special case of a resident Hindu undivided family which satisfies certain conditions. (These conditions are that the family had, during the relevant year, at least two adult members entitled to claim partition or, alternatively, it had two members (whether adults or otherwise) entitled to claim partition who were not lineally descended one from the other and who were not lineally descended from any other living member of the family). These "small income exemption limits" are not applicable in the case of non-resident taxpayers. Even in the case of resident taxpayers, the "small income exemption limit" of Rs 4,000 is significant only in the case of unmarried individuals, and also unregistered firms, associations of persons, etc. In the case of married individuals, and Hindu undivided families not qualifying for the special exemption limit of Rs 7,000, the effect of the deduction on account of personal allowances, as stated in the preceding paragraph, is to exempt the first Rs 4,000, or a higher amount (depending upon the number of children or minor coparceners) from tax altogether.

10. With a view to bringing about an increase in the level of personal taxation at higher income levels, while providing some relief at lower levels (particularly in the case of unmarried individuals), and in the interest of simplification of tax calculations in the case of non-corporate taxpayers generally, the Bill proposes to make the following changes in the rate schedule of basic income-tax in the case of individuals, Hindu undivided families, unregistered firms, etc. :—

(*i*) The rate of tax in the initial income slab of Rs 5,000 is being prescribed at *Nil*.

(*ii*) The income slabs above Rs 30,000 are being rearranged, and the rates of tax in income slabs over Rs 40,000 are being stepped up from the present rates. The revised slabs and rates over Rs 30,000 are as shown hereunder :—

Slab of income as proposed in the Bill	Proposed rate of tax	Existing rate of tax	Remarks
Rs			
30,001 .. 40,000	50%	50%	No change
40,001 - 60,000	60%	50% between Rs 40,001 and 50,000 60% between Rs 50,001 and 60,000	
60,001 - 80,000	70%	60% between Rs 60,001 and 70,000 65% between Rs 70,001 and 80,000	
80,001 - 1,00,000	75%	65%	
1,00,001 - 2,00,000	80%	70%	
Over Rs 2,00,000	85%	70% between Rs 2,00,001 and 2,50,000 75% on the excess over Rs 2,50,000.	

Together with surcharge at 10 per cent. of the basic income-tax, which continues to be leviable, the maximum marginal rate of tax under the Bill is 93·5 per cent in income in the slab over Rs 2,00,000, as against the maximum marginal rate of tax (including surcharge) of 82·5 per cent, on income in the slab over Rs 2,50,000 at present.

(*iii*) The deductions from tax on account of personal allowances, in the case of resident individuals and Hindu undivided families, are being discontinued, in view of the prescription of a Nil rate of tax on income in the initial slab of Rs 5,000 as stated at (*i*) above. The benefit in terms of tax (including surcharge), on account of this change, will be as under :—

(*a*) Resident married individuals with two or more dependent children, and resident Hindu undivided families with two or more minor coparceners .. .. Rs 11 in each case.

(The dependent parent allowance of Rs 20 is also being discontinued and, consequently, in the case of those who are presently entitled to this allowance, there would be a small reduction in the tax benefit by Rs 11)

(*b*) Resident married individuals with one dependent child, and resident Hindu undivided families with one minor coparcener .. .. .. Rs 33 in each case.

(*c*) Resident married individuals having no dependent child and resident Hindu undivided families having no minor coparcener .. .. .. Rs 55 in each case.

(*d*) Resident unmarried individuals .. Rs 137,50 in each case

Non-resident individuals and Hindu undivided families, as also unregistered firms, associations of persons etc, whether resident or not, will also benefit in the tax payable by them.

(*iv*) The existing "small income exemption limit" of Rs 4,000, in the generality of cases of resident non-corporate taxpayers is being dropped altogether. The prescription of a Nil rate of tax on income in the initial slab of Rs 5,000, as stated at (*i*) above, secures that no tax will be payable by a non-corporate taxpayer unless his income exceeds Rs 5,000.

The existing special exemption limit of Rs 7,000 in the case of resident Hindu undivided families satisfying certain conditions is, however, being continued

11. The Table below shows, at selected levels of incomes of a resident individual, the comparative incidence of tax (including surcharge) under (*a*) the schedule of rates applicable during the financial year 1969-70 for purposes of computation of advance tax and deduction of tax at

source from "Salaries" [and proposed to be made applicable to incomes assessable for the assessment year 1970-71], and (*b*) the schedule of rates proposed in the Bill for the computation of advance tax and deduction of tax at source from "Salaries" during the financial year 1970-71.

COMPARATIVE INCIDENCE OF TAX AT SELECTED LEVELS OF INCOME IN THE CASE OF RESIDENT INDIVIDUALS

Income	Tax (including surcharge) at the rates applicable during the financial year 1969-70 [as stated at (*a*) above]		Tax including surcharge at the rates in the Bill for computation of 'advance tax' from "Salaries" during 1970-71	Increase (+) / Decrease (—) in tax	
	Resident unmarried individual	Resident married individual with more than one child		Resident unmarried individual (4) — (2)	Resident married individual with more than one child (4)—(3)
1	2	3	4	5	6
5,000	138	11	Nil	(—) 138	(—) 11
7,500	413	286	275	(—) 138	(—) 11
10,000	688	561	550	(—) 138	(—) 11
12,500	1,155	1,029	1,018	(—) 138	(—) 11
15,000	1,623	1,496	1,485	(—) 138	(—) 11
20,000	2,888	2,761	2,750	(—) 138	(—) 11
25,000	4,538	4,411	4,400	(—) 138	(—) 11
40,000	12,238	12,111	12,100	(—) 138	(—) 11
50,000	17,738	17,611	18,700	(+) 962	(+) 1,089
60,000	24,338	24,211	25,300	(+) 962	(+) 1,089
70,000	30,938	30,811	33,000	(+) 2,062	(+) 2,198
80,000	38,088	37,961	40,700	(+) 2,612	(+) 2,739
90,000	45,238	45,111	48,950	(+) 3,712	(+) 3,839
1,00,000	52,388	52,261	57,200	(+) 4,812	(+) 4,939
1,50,000	90,888	90,761	1,01,200	(+) 10,312	(+) 10,439
2,00,000	1,29,388	1,29,261	1,45,200	(+) 15,812	(+) 15,939
2,50,000	1,67,888	1,67,761	1,91,950	(+) 24,062	(+) 24,189
3,00,000	2,09,138	2,09,011	2,38,700	(+) 29,562	(+) 29,689
5,00,000	3,74,138	3,74,011	4,25,700	(+) 51,562	(+) 51,689
10,00,000	7,86,638	7,86,511	8,93,200	(+) 106,562	(+) 106,689

12. The Table in Annexure B shows, in the case of individuals, Hindu undivided families, unregistered firms, associations of persons etc., the income-tax payable at the rates proposed in the Bill for computation of advance tax and deduction of tax from "Salaries" during the financial year 1970-71, on total incomes from Rs 6,000 to Rs 20,00,000.

13. *Co-operative societies, registered firms, local authorities, the Life Insurance Corporation of India and companies.*—In the case of these categories of taxable entities, the rates of income-tax specified, respectively, in Paragraphs B, C, D, E and F of Part III of the First Schedule to the Bill, for the purpose of computation of the advance tax payable by them during the financial year 1970-71 are the same as the rates of income-tax specified, respectively, in Paragraphs B, C, D, E and F of Part I of the First Schedule for incomes assessable for the assessment year 1970-71. The Union surcharge at 10 per cent of the basic income-tax presently leviable in the case of co-operative societies and local authorities, as also the ordinary and special surcharges for purposes of the Union, presently leviable in the case of registered firms, also continue.

(Clause 2 and the First Schedule)

IV. Proposed Amendments to the Income-Tax Act

MEASURES FOR FACILITATING SAVINGS AND INVESTMENT

14. *Increase in the quantum of exemption from tax of income from certain categories of investments*:—Under the existing provisions of the Income-tax Act, income derived by a tax-payer from investments in certain categories of financial assets enjoys exemption from tax. These exemptions comprise: (*a*) income up to Rs 1,000 received on units in the Unit Trust of India; (*b*) income up to Rs 1,000 by way of dividends on shares in Indian companies; (*c*) whole of the interest on investments in various small savings securities of the Central Government, including 10-Year Defence Deposit Certificates, 12-Year National Defence Certificates, deposits in Post Office Savings Banks and 5-Year fixed deposits with the Central Government in the State Bank of India or in Post Offices. In order to enlarge the area of investments, income from which qualifies for tax relief, and to provide a wider choice to investors to choose the form of investment, the Bill proposes to replace the existing exemptions in respect of income on units in the Unit Trust of India and dividends on shares in Indian companies by a broader and more liberal provision. Under the provision as proposed, exemption is being provided in respect of income up to Rs 3,000 derived from one or more of the specified categories of investments. The investments covered by this provision are the following :—

(*i*) Securities of the Central Government or any State Government.

(*ii*) Debentures, issued by any co-operative society (including a co-operative land mortgage bank or a co-operative land development bank) or any other institution or authority, which may be notified by the Central Government for the purpose of this exemption.

(*iii*) Deposits under any scheme framed by the Central Government and notified by it for the purpose of this exemption.

(*iv*) Shares in Indian companies.

(*v*) Units in the Unit Trust of India.

(*vi*) Deposits with banking companies, co-operative banks, land mortgage banks and land development banks.

It will be open to the taxpayer to make investments according to his choice in one or more of the above-mentioned categories of investments and qualify for exemption up to Rs 3,000 in respect of income derived from these investments. (The existing exemptions in respect of income derived from investments in various small savings securities and deposits will continue without change).

15. The proposed provision is being made effective from 1.4.1971,

and will accordingly apply to the assessment year 1971-72, i.e. in relation to income derived from the specified categories of investments during the financial year 1970-71.

(Clauses 14 and 15)

16. *Exemption of interest on certain small savings schemes etc. from deduction of income-tax at source.*—With a view to mobilisation of savings for the public sector both in urban and rural areas to provide resources for the fourth five-year Plan, the central government is instituting a variety of small savings schemes having features which will be attractive to investors in different income groups. Simultaneously, some of the existing small savings schemes are also being modified to make these more attractive to investors. The details of these schemes have been explained in a separate pamphlet. Some of the new small savings schemes carry the advantage of exemption from income-tax on the interest, as in the past, while others provide for a higher rate of interest which will be subject to tax. However, with a view to encouraging large investments in these schemes, particularly by persons in the rural areas, it is proposed to secure payment of the interest in such cases without deduction of tax at source. This facility is being provided in respect of interest on the following new schemes :—

(*a*) 7-Year National Savings Certificates (IV Issue).

(*b*) Deposits under any scheme framed by the Central Government and notified by it in this behalf in the Official Gazette. It is proposed to cover under this heading the newly instituted schemes relating to Recurring Deposits and Time Deposits in Post Offices.

16.1. Power is also being taken to the Central Government to exempt from deduction of tax at source interest on debentures issued by co-operative societies and other institutions and authorities, by notification in the Official Gazette. The intention is to cover interest on debentures qualifying for exemption up to Rs. 3,000 under the new provision explained in para 14 and 15 of this Memorandum.

(Clauses 22 and 23)

Measures for Plugging Loopholes in the Law Leading to Tax Avoidance

17. *Changes in the provisions relating to exemption from tax of the income of charitable and religious trusts:*—Under the existing provisions of the Income-tax Act, income from property held under trust wholly for charitable or religious purposes is exempt from income-tax to the extent such income is applied to the purposes of the trust in India in the same year. The balance of the income which is accumulated for application to such purposes in India is also exempt from tax so long as such accumulation does not exceed 25 per cent of the income of the trust or Rs. 10,000, whichever is higher. Any accumulation of income in excess of this limit is alone subject to tax. A similar exemption is available also in cases where property is held under trust in part only for charitable or religious purposes, provided the trust was created before 1.4.1962. In both these types of trusts, accumulation of income beyond the limit of 25 per cent. of the income of the trust or Rs 10,000, whichever is higher, is allowed to be made without attracting tax liability on the excess, if the trust complies with certain procedural formalities (of giving notice to the Income-tax Officer specifying the purpose for which the income is desired to be accumulated, and the period for which the accumulation is proposed to be made) and subject to the requirement that the income so accumulated is invested in Government securities or any other approved securities. The maximum period of such accumulation that may be permitted under this provision is 10 years, and if the accu-

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mulated income is not applied to the purposes for which it was accumulated within one year of the expiry of the 10-year period, the exemption is lost and tax is chargeable on the accumulated income.

18. These tax concessions have facilitated accumulation of tax-exempt funds with charitable and religious trusts and such funds are often used for acquiring control over industry and business. Further, although the law provides for forefeiture of the exemption in a case where the income of a charitable trust or institution enures, or the income or property of the trust or institution is used or applied, for the benefit of the author of the trust or founder of the institution, these provisions have not been effective in preventing indirect benefits being provided to such author or founder out of the trust funds in a variety of ways. With a view to checking these abuses and reducing the scope for the use of tax-exempt funds of charitable and religious trusts and institutions to acquire control of industry and business, it is proposed to make certain changes in the provisions relating to the exemption from tax of the income of charitable and religious trusts, as explained in the following paragraphs.

18.1. Exemption from tax will be allowed only in respect of income actually applied to the purposes of the trust in India in the same year or within a period of 3 months immediately following. Any income which is not so applied to the purposes of the trust but is accumulated or set apart for future application to such purposes will be subjected to tax. The existing provision for exemption from tax of accumulations of such income up to 25 per cent of the income of the trust or Rs 10,000 whichever is higher, is being dropped altogether.

18.2. The existing provision for accumulation of income for a 10-year period with the permission of the Income-tax Officer and subject to certain requirements regarding investment of the funds so accumulated in government securities or other approved securities, will, however, continue.

18.3. The exemption from tax will be forfeited, in the case of a trust or institution created or established after 31.3.1962, if under the terms of the trust or the rules governing the institution, any part of the trust income enures for the direct or indirect benefit of the author of the trust, or founder of the institution or certain persons connected with them. In the case of a trust or institution, whenever created or established, the exemption will be forfeited also where the trust income or property is used or applied during the relevant year for the direct or indirect benefit of such persons. (This disability will not apply in the case of a trust or institution created or established prior to 1.4.1962, if the use of the trust income or property is in compliance with a mandatory provision in the terms of the trust or rules governing the institution).

18.4. In particular, the trust income or property will be regarded as having been used or applied for the benefit of such persons if the trust or institution engages in certain categories of transactions. These are broadly :—

- (*a*) ending of the income or property of the trust or institution to any one of the specified persons without either adequate security or adequate interest or both;
- (*b*) making available land, building or other property of the trust or institution, for the use of any of the specified persons without charging adequate rent or other compensation ;
- (*c*) payment of excessive remuneration to any of the specified persons for services rendered by him to the trust or institution ;
- (*d*) making the services of the trust or institution available to any of the specified persons without adequate remuneration or other compensation :
- (*e*) purchase of shares, securities or other properties for the trust or institution from any of the specified persons for more than adequate consideration ;
- (*f*) sale of shares, securities or other property of the trust or institution to any of the specified persons for less than adequate consideration ;
- (*g*) diversion of a substantial portion of the income or property of the trust or institution in favour of any of the specified persons ;
- (*h*) investment of the trust funds in any concern in which any of the specified persons has a substantial interest.

18.5 The persons specified for the purposes of the above-mentioned transactions are (*a*) the author of the trust or founder of the institution; (*b*) any person who has made a substantial contribution to the trust or institution; (*c*) where such author, founder or person is a Hindu undivided family, any member of the family; (*d*) any relative of any such author, founder, person or member; and (*e*) any concern in which any of the above-mentioned persons has a substantial interest. A person will be regarded as having a substantial interest in a concern if, in a case where the concern is a company, equity shares in the company carrying not less than 20 per cent of the voting power are beneficially owned by such person or partly by him and partly by other such persons; and in any other case, where such person is entitled, or such person and one or more of other such persons are entitled, in the aggregate, to not less than 20 per cent of the profits of the concern. Where the trust funds are invested in any concern in which any of the specified persons has a substantial interest, and the quantum of the investment does not exceed 5 per cent of the capital of the concern, the trust or institution will forfeit the exemption from tax only in respect of the income arising from such investment.

18.6 For the effective enforcement of the new provisions as stated earlier, it is being specifically provided that it will be obligatory on the part of the persons in charge of charitable or religious trusts or institution to furnish a return in respect of the income of the trust or institutions in all cases where the total income of the trust or institution, without taking credit for the exemption from tax, exceeds the minimum taxable limit. Such a return has to be furnished in the form to be prescribed in the Income-tax Rules and verified in the prescribed manner and shall set forth such other particulars as may be prescribed in the said rules. The return will be due by the 30th June of the assessment year, or later date as in the case of other taxpayers. Information contained in such return may be made available by the Commissioner of Income-tax, to a person who applies for it, in accordance with the existing provisions in the law and subject to the usual conditions.

18.7 These provisions are being made effective from 1st April,


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1971, i.e. in relation to current incomes of the financial year 1970-71 or other corresponding accounting year relevant to the assessment year 1971-72.

(Clauses 5, 6 and 20)

19 *Changes in the scheme of taxation of the income of private discretionary trusts*.—Under the existing provisions of the Income-tax Act, income of a private trust is charged to tax at the rates of tax applicable to the personal income of each one of the beneficiaries including his share in the trust income, where the shares of the beneficiaries are specific and determinate. Where such shares are indeterminate or unknown, the trust income is charged to tax as a single unit as if it were the total income of an association of persons. This provision affords scope for reduction of tax liability by transferring property to trustees and vesting discretion in the trustees to accumulate the income or apply it for the benefit of any one or more of the beneficiaries at their choice. By creating a multiplicity of such trusts, each one of which derives a comparatively low income, the incidence of tax on the income from property transferred to the several trusts is maintained at a low level. In such arrangements, it is often found that one or more of the beneficiaries of trust are persons having high personal incomes, but no part of the trust income being specifically allocable to such beneficiaries under the terms of the trust, such income cannot be subjected to tax at the high personal rate which would have been applicable if their shares had been determinate.

20. A similar position obtains for purposes of wealthtax, where also the property of a trust, in which the shares of the beneficiaries are indeterminate or unknown, is charged to wealth-tax, as a sepatate unit, at the progressive rates of tax as in the case of an individual. As the first Rs 100,000 of the net wealth of an individual bears no wealth tax, such a trust affords scope for avoidance of wealth-tax liability altogether where the net wealth of the trust does not exceed Rs 100,000. Where the net wealth of the trust exceeds Rs 1,00,000, only the excess bears tax at the progressive rates as stated earlier.

21. In order to put an effective curb on the proliferation of such trusts, it is proposed to subject the income of such trusts to tax at a flat rate of 65 per cent or at the appropriate higher rate of tax which would be applicable if such income were the total income of an association of persons. The provision for charging tax at the flat rate of 65 per cent, will not, however, apply in the following types of cases :—

(*i*) Where none of the beneficiaries of the trust has any other income chargeable to tax.

(*ii*) Where the trust is declared by Will.

(*iii*) Where the trust was created by a non-testamentary instrument before the 1st March, 1970 and the Income-tax Officer is satisfied, having regard to all the circumstances existing at the relevant time, that the trust was created *bona fide* exclusively for the benefit of the dependent relatives of the settler, and where the settler is a Hindu undivided family, exclusively for the benefit of the dependent members of the family.

In these categories of cases, the income of the trust will be chargeable to tax as if it were the total income of an association of persons.

22. It is also being provided that income derived from property held under trust for charitable or religious purposes, to the extent it does not qualify for exemption under the relevant provisions as sought to be modified under the Bill (vide paras 18·1 to 18.5 of this Memorandum), will be subjected to tax as if such income were the total income of an association of persons.

23. The above-mentioned provisions are being made effective from 1.4.1971, i.e. for the assessment year 1971-72 and subsequent assessment years. It is also being provided that advance tax will be payable for the financial year 1971-72 and subsequent years on the above basis in the case of discretionary trusts.

(Clauses 3 (c) and 21)

24. *Extension of the levy of tax to capital gains arising from transfer of agricultural lands in urban areas*.—Presently, capital gains arising from the transfer of a capital asset are chargeable to income-tax. The definition of "capital asset" excludes from its scope, *inter alia*, agricultural land in India. Accordingly, no liability to tax arises on gains derived from transfer of agricultural land in India. This exemption of agricultural land from the scope of the levy of tax on capital gains has a historical origin and is not due to any bar in the Constitution on the competence of Parliament to legislate for such levy. Agricultural land situated in municipal and other urban areas is essentially similar to non-agricultural land in such areas in its potentialities for use due to the progress of urbanisation and industrialisation. It is accordingly proposed to bring, within the scope of taxation, capital gains arising from the transfer of agricultural land situated within the limits of any municipality or cantonment board which has a population of not less than 10,000 according to the latest census for which the relevant figures have been published. Power is also being taken to the Central Government to bring within the scope of the levy (by notification in the Official Gazette), capital gains arising from transfer of agricultural lands situated outside the limits of any such municipality or cantonment board up to a maximum distance of 8 kilometres, where this is considered necessary having regard to the extent of and scope for urbanisation of that area and other relevant considerations. Agricultural land which is situated in rural areas will continue to be outside the scope of the above mentioned provision. Accordingly, no liability to tax will arise in respect of gains derived from transfer of agricultural land in rural areas.

25. The above-mentioned provision for taxation of capital gains arising from transfer of agricultural land in municipal and other urban areas is being made effective from 1.4.1970, i.e. for the assessment year 1970-71. However, it is being specifically provided that gains arising from the transfer of agricultural land in India before 1.3.1970 will continue to be outside the scope of the levy of tax.

(Clauses 3 (a) and 11)

26. *Denial of deduction for entertainment expenditure incurred in India in computing business profits*.—At present, entertainment expenses incurred in businesses and professions (including expenditure incurred through grant of entertainment allowances to directors and employees or through "expense accounts" operated by them) are allowed as a deduction in computing the profits of the business or profession, subject to certain limits which are calculated with reference to the profits of the

business or profession. The maximum deduction available in any case is Rs 30,000, and this limit is reached when the profits of the business or profession amount to Rs 1,70,00,000.

27. With a view to curbing lavish expenditure on entertainment, it is proposed to make a provision for the disallowance of entertainment expenditure incurred in India after 28.2.1970 altogether in computing the profits and gains of business or profession. Entertainment expenditure incurred outside India will continue to be admissible as a deduction subject to the limits already provided in the law.

28. This provision is being made effective from 1.4.1970 and will be applicable for the assessment year 1970-71.

(Clause 10 (a) and b)

29. *Disallowance of expenditure on maintenance of guest houses in computing the profits and gains of business or profession.*—At present, expenditure incurred by an assessee on the maintenance of guest houses is allowed as a deduction in computing the profits and gains of business or profession, subject to certain limits specified in the Income-tax Rules. These rules cover expenditure on guest houses maintained at the principal place of the business or profession in India, any place where the assessee has an establishment for processing of raw materials, manufacture or processing or production of any article or thing or any other industrial establishment employing not less than 50 whole-time employees throughout the relevant year, and, in the case of a business or profession having not less than 100 whole-time employees on its rolls, also "holiday homes" for the use of the employees while on leave. The rules also cover guest houses at Delhi and at two other places in India which may be either the capital of a state government or any other place which is of direct importance to the business or profession. Banking companies are allowed to maintain guest houses at Bombay to facilitate liaison with the Reserve Bank of India. Accommodation hired or reserved in a hotel for a period of more than six months during the year is treated as a guest house for the purposes of the rules.

30. These provisions have been found to be of little effect in curbing proliferation of guest houses. In order to place an effective check on lavish expenditure on maintenance of guest houses, it is proposed to disallow altogether expenditure incurred after 28.2.1970 on the maintenance of guest houses other than "holiday homes", in computing the profits and gains of business or profession. This provision will cover not only the establishment and other charges for running the guest house but also depreciation on the building where this is owned by the assessee, and rent paid for the accommodation where this is taken on hire or lease. Depreciation on assets, such as air-conditioners, refrigerators, cooking ranges, furniture and fittings, etc., in the guest house will also be disallowed under the proposed provision. Where any charges are recovered from persons using the guest house, these will be deducted from the expenditure on maintenance and the depreciation, and only the balance will be disallowed in computing the profits of the business or profession. The provision, as proposed, will not, however, apply to "holiday homes" maintained by assessee employing in his business or profession not less than 100 whole-time employees throughout the relevant year, where the "holiday home" is intended for the exclusive use of such employees while on leave.

31. This provision is being made effective from 1.4.1970, and will be applicable for the assessment year 1970-71.

(Clause 10(c))

Strengthening the Administrative Machinery of the Income-Tax Department.

32. The field organisation of the Income-tax Department is, at present, organised into territorial charges with one or more Commissioners of Income-tax at the head. Each Commissioner is assisted by several Inspecting Assistant Commissioners of Income-tax who supervise and control the work of the Income-tax Officers assigned to their charge. The jurisdiction of Commissioners of Income-tax is laid down by the Board, and, within their respective jurisdictions, they also perform the functions of Commissioners of Wealth-tax and Gift-tax as also Controllers of Estate Duty. In recent years, the functions of the Commissioner of Income-tax have increased enormously both in the technical sphere, partly statutory and partly non-statutory, and on the administrative side, with the result that the present strength of Commissioners is found to be inadequate for the timely performance of all these functions.

33. With a view to ensuring greater attention to the functions of Commissioners of Income-tax, without fragmenting their charges into non-viable units, and enabling them to devote special attention to problem areas, such as accumulation of assessments and arrears of taxes, tax evasion, survey, and the proper and efficient management of their charges, government have created a new cadre of Additional Commissioners on a lower scale of pay, to take over some of the statutory and non-statutory functions of Commissioners of Income-tax and thereby release senior officers for more important administrative and managerial duties. It is accordingly proposed to include Additional Commissioners among the categories of Income-tax authorities. These Additional Commissioners will have the same status and functions under the statue as Commissioners of Income-tax. The Income-tax Act already allows distribution and allocation of work among Commissioners of Income-tax on the functional basis. It will be open to the Central Board of Direct Taxes to assign to more than one Commissioner, including Additional Commissioner, concurrent jurisdiction over the same area or persons or classes of persons or incomes or classes of incomes of cases or classes of cases, and to distribute and allocate the work among these Commissioners and Additional Commissioners on the functional basis. It is being specifically provided that where such concurrent jurisdiction over an assessee is assigned to two or more Commissioners (including Additional Commissioners), the Commissioner competent to perform any function in relation to such assessee will be the Commissioner (or Additional Commissioner) to whom such function has been assigned under the order of the Board.

(Clauses 3 (b), 17, 18 and 19)

Measures for providing tax relief and avoiding inconvenience to assessees in certain cases

34. *Exemption from tax of the income of hospitals and other medical institutions:*—At present, universities and other educational institutions existing solely for educational purposes and not for purposes of profit enjoy complete exemption from tax on their incomes. However, in the

case of hospitals and similar other institutions for treatment of illness, there is no specific exemption from tax, unlike in the case of universities. Medical institutions come under the category of charitable institutions and have to satisfy the conditions relating to application of not less than 75 per cent of their current incomes to their objects in the same year in order to qualify for exemption from tax on the remainder which is accumulated. In the context of the modifications proposed in the provisions relating to the exemption from tax of the income of charitable and religious trusts and institutions (*vide* paragraphs 18.1 to 18.5 of this Memorandum), it is proposed to make a specific provision for exempting from tax the income of hospitals and other medical institutions which exist solely for philanthropic purposes and not for purposes of profit. The provision, as proposed, will cover also institutions for treatment of mental defectiveness as also those of treatment of persons during convalescence or of persons requiring medical attention or rehabilitation. The income of all those categories of institutions will be exempt from tax altogether, as in the case of universities and other educational institutions at present.

(Clauses 4 (b) and 13)

35. *Exemption from tax of State Housing Boards, Development Boards and similar other authorities*.—Several states have set up statutory Housing Boards for the framing and execution of housing and other development schemes. These Boards are autonomous organisations and they play an important role in implementing the social housing programmes of government for the common good. As these Boards are serving an important public purpose and do not exist for private profit, it is proposed to make a specific provision in the Income-tax Act exempting the income of such Boards from tax altogether. The provision, as proposed, exempts from tax any income of an authority constituted in India by any law enacted either for the purpose of dealing with and satisfying, or under the need for housing accommodation or for the purpose of planning development or improvement of cities, towns and villages, or for both. This provision is being made effective from 1.4. 1962, that being the date of commencement of the Income-tax Act, 1961.

(Clause 4 (a)

36. *Deduction for expenses incurred by salaried taxpayers in travelling for purposes of employment, in computing taxable salary income*.—Presently, salaried taxpayers owning a conveyance (motor car, motor cycle, scooter, bicycle, etc.) and using it for the purpose of employment, are entitled to a standard deduction from their salary income to cover the expenditure incurred by them on the maintenance of the conveyance and its wear and tear attributable to its use for the purpose of employment. The standard deduction for a motor car is Rs 200 per month where the gross yearly salary does not exceed Rs 25,000, and Rs 250 per month, where it exceeds Rs 25,000 ; for a motor cycle, scooter or other moped, it is Rs 50 per month; and for a bicycle, it is Rs 5 per month. The standard deduction is not available in the case of salaried employees who do not own a conveyance and use the public transport system in travelling for the purpose of employment.

37. With a view to providing some relief in tax to salaried taxpayers who do not own any conveyance but use the public transport system for travelling for purposes of employment, it is proposed to allow a standard deduction of Rs 20 per month (Rs 240 for the year) to all salaried tax-

payers other than those who own a motor car or a motor cycle, a scooter or other moped and use it for the purpose of their employment. The standard deduction for a motor cycle, scooter or other moped will continue at the present rate of Rs 50 per month. The standard deduction for a motor car is being prescribed in a uniform amount of Rs 200 per month irrespective of the gross salary level, as against Rs 250 per month for those having gross yearly salary exceeding Rs 25,000 and Rs 200 for those having yearly salary up to Rs 25,000, at present. The standard deduction of Rs 20 per month will be available to those who do not own any conveyance, as also to those who own a bicycle or any other conveyance, not being a motor car, motor cycle, scooter or other moped. The provision, as proposed is being made effective from 1.4.1971, i.e. for the assessment year 1971-72, and will accordingly be applicable in relation to salary incomes of the financial year 1970-71. As under the existing provision, the standard deduction will not be available to an employee who is in receipt of a conveyance allowance whether as such or as part of his salary.

37.1. The combined effect of the standard deduction of Rs 20 per month (Rs 240 for the year) proposed above in the case of all salaried employees who do not own a motor car, motor cycle, etc., and the exemption from income-tax of the first Rs 5,000 of the total income [*vide* paragraph 10 (*i*) of this Memorandum] will be that a salaried employee will not pay any tax unless his income exceeds Rs 5,240. If he effects long-term savings out of his income (e.g., by way of contribution to a Government Provident Fund, recognised provident fund or the Public Provident Fund) to the extent of, say Rs 600 in the year (Rs 50 per month), he will be eligible for a deduction of Rs 360 (60 per cent. of Rs 600) in the computation of his taxable income. Accordingly, no tax will be payable by him unless his income exceeds Rs 5,600 (Rs 5,240 *plus* Rs 300). Further, if he has invested his savings in, say units in the Unit Trust of India, the income derived from such investment up to Rs 3,000 will also be eligible for exemption from tax (*vide* paragraphs 14 & 15 of this Memorandum).

(Clause 7)

38. *Tax relief on savings through specified media in the case of married couples governed by the concept of "community of property" in the Union territories of Dadra and Nagar Haveli and Goa, Daman and Diu* :—The Income-tax Act, 1961 was extended to the former Portuguese possessions of Goa, Daman and Diu and Dadra and Nagar Haveli with effect from 1.4.1963 by a Presidental Regulation under article 240 of the Constitution. Under the personal law governing persons domiciled in these Union territories, married couples are subject to the system of "community of property" under which all present and future belongings of each spouse become the joint property of both the spouses. The joint ownership of the property continues as long as the marriage subsists. In view of this position, income from all properties, including businesses, shares, securities and other investments, which before the marriage belonged to the spouses separately, as also income from properties acquired by either spouse after the marriage, belongs to them jointly and the assessment of such income has to be made on the spouses jointly in the status of an association of persons or body of individuals. In regard to income from salary and other income derived by personal exertion, however, the spouses will be assessable individually on their separate incomes.

39. At present, tax relief is allowed to individuals with reference to their long-term savings in specified media e.g. life insurance, provident funds, including the Public Provident Fund, 10-Year or 15-Year Cumulative Time Deposits in Post Offices, etc., up to specified limits. A Hindu undivided family is likewise entitled to tax relief on long-term savings through life insurance. Savings in these media up to 30 per cent. of the gross income qualify for tax relief in the case of an individual, subject to a monetary limit of Rs 15,000. The tax relief is allowed by deducting 60 per cent of the first Rs 5,000 and 50 per cent of the balance of the qualifying amount of savings in computing the taxable income of the individual.

40. It is now proposed to extend to married couples governed by the system of "community of property" in the Union territories of Dadra and Nagar Haveli and Goa, Daman and Diu the benefit of tax relief on their long-term savings in specified media on the same lines as are presently available in the case of individuals. Under the provision as proposed, married individuals in these Union territories who are assessable to income-tax in the status of an association of persons or body of individuals by reason of their being governed by the Portuguese personal law of "community of property" will be entitled to tax relief with reference to the savings, effected by them out of their income chargeable to tax, by way of premiums paid on policies of insurance or contracts for deferred annuities on the life of either spouse or on the life of any child of either spouse; deposits in a 10-Year or 15-Year Account under the Post Office Savings Bank (Cumulative Time Deposits) Rules, 1959; and contributions to the Public Provident Fund set up by the Central Government. Savings in these forms will qualify for tax relief up to 30 per cent. of the gross total income of the association or body, or Rs 15,000 whichever is less, as in the case of individuals. The tax relief will be allowed by deducting 60 per cent. of the first Rs 5,000 and 50 per cent of the balance of the qualifying amount of savings in computing the taxable income of the association or body.

41. The provision, as proposed, is being brought into effect from 1.4.1971, and will accordingly apply for the assessment year 1971-72. In regard to the period up to and including the assessment year 1970-71, similar relief has been allowed to such married couples in these Union territories by the issue of a Removal of Difficulties Order by the Central Government under section 7 of the Taxation Laws (Extension to Union Territories) Regulation, 1963.

(Clause 12)

42. *Provision authorising payment of income to non-residents without deduction of tax at source in certain cases*:—Under the existing provisions of the Income-tax Act, any person responsible for paying to a non-resident including a foreign company, any income by way of interest (other than "Interest on securities") or any other sum (other than dividends) which is chargeable to income-tax in India, is required to deduct tax at source on such income at the time of payment. [Income by way of salaries, "Interest on securities" and dividends are also subject to deduction of tax at source in all cases, regardless] whether the recipient of the income is resident or not resident in India.] This provision causes avoidable inconvenience to persons and concerns who, though technically not resident in India, conduct their activities in this country on a more or less

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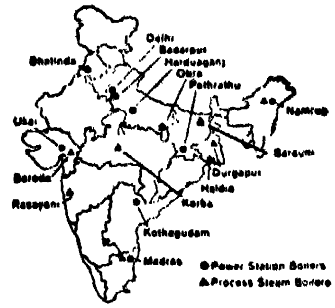

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permanent basis through a branch or other establishment and are regularly assessed to income-tax here. Apart from this, the existing provision, if interpreted strictly, would require tax to be deducted at source with reference to the income element embedded in payments, made by a large number of consumers, for goods or services provided by non-resident concerns operating in India. With a view to avoiding hardship and inconvenience in such cases, it is proposed to make a specific provision under which any non-resident, including a foreign company, may obtain, from the Income-tax Officer, a certificate authorising him to receive payments of income by way of interest (other than "Interest on securities") or any other sum (other than dividends) which is chargeable to tax in India, without deduction of tax at source. Such application may be made in the cases and under the circumstances to be specified by the Central Board of Direct Taxes in the Income-tax Rules. The Rules will also specify the conditions subject to which such a certificate may be granted by the Income-tax Officer and provide for other connected matters. Every person responsible for paying such interest or other sum to the holder of a certificate granted under this provision shall pay such income without deducting tax at source so long as the certificate is in force, i.e. the period specified in the certificate, or if it is cancelled by the Income-tax Officer earlier, till such cancellation.

(Clause 24)

43 *Power to Commissioner of Income-tax to grant extension of time for payment of the final instalment of advance tax in certain cases*—The Finance Act, 1969 made certain changes in the scheme of payment of advance tax under the Income-tax Act with a view to making the scheme more effective. Under the provisions as amended, advance tax is payable during the financial year 1969-70 and subsequent years by all categories of persons in three equal instalments, as against four instalments for certain categories of cases and three for others under the earlier law. These instalments are due on June 15, September 15 and December 15 of the financial year in the case of a person deriving 75% or more of his total income from a source or sources for which he closes his accounts on December 31 or earlier. In other cases, the instalments are due on September 15, December 15 and March 15. Another change made last year placed a statutory obligation on the taxpayer to make an estimate of his current income and pay advance tax thereon if such tax exceeds the advance tax demanded from him by more than 1/3rd of the latter amount. Formerly, there was no such obligation on the taxpayer to pay a higher amount of advance tax than that demanded by the Income-tax Officer. These provisions lead to some hardship to taxpayers in those cases where the accounts of the business carried on by the taxpayer are closed on 31st December or 31st March, because, in such a case, it will be difficult for him to make a reasonably accurate estimate of the profits of such business before closing of accounts on expiry of the account year. The statutory provisions on the other hand, require such a taxpayer to make an estimate of his current income and pay advance tax on that basis 15 days before the date of closing of the accounts.

44. With a view to relieving hardship and inconvenience to taxpayers in such cases, it is proposed to make a provision authorising the Commissioner of Income-tax to extend the due date for payment of the last instalment of advance tax in deserving cases. Such extension will be granted by the Commissioner where he is satisfied that, having regard to the nature of the business carried on by the assessee and the date of expiry of the previous year in respect of such business it will be difficult for the assessee to furnish the estimate of his current income and of the advance tax payable by him on such income before the due date of the final instalment. The assessee will, however, be required to pay the advance tax demanded from him by the Income-tax Officer on or before the due date specified in the law for this purpose and, if he does this, he may be allowed time to furnish the estimate of his current income and of the advance tax payable thereon up to a period of 30 days following the last day of the previous year in respect of his business. Where such extension is granted by the Commissioner, the assessee may pay the further amount of advance tax (i.e. the amount by which the advance tax already paid by him falls short of the advance tax payable in accordance with his estimate) on or before the date so extended.

(Clause 25)

Other Amendments to the Income-tax Act

45 *Amendment of provision for grant of export markets development allowance so as to bring out the intention underlying the said provisions*—The Finance Act, 1968 introduced a new provision in the Income-tax Act under which domestic companies and resident non corporate taxpayers, incurring expenditure under specified heads for development of export markets for Indian goods on a long-term basis, will be entitled to an export markets development allowance in the computation of their taxable profits. This allowance consists of a weighted deduction in an amount equal to 1-1/3rd times the amount of the qualifying expenditure. One of the heads of expenditure specified in the relevant provision as qualifying for the weighted deduction is that incurred on 'distribution, supply or provision outside India, of the goods, services or facilities dealt in or provided by the taxpayer in the course of his business. This provision is susceptible of the interpretation that expenditure incurred by an exporter on payment of ocean freight, insurance, etc., in connection with sale of goods to a foreign purchaser on the c.i.f. basis, would qualify for the weighted deduction. As this is not the intention underlying the provision, it is proposed to amend the relevant clause so as to make clear that expenditure on 'distribution, supply or provision outside India, of goods, services or facilities will not include expenditure incurred in India in connection therewith or expenditure (wherever incurred) on the carriage of such goods to their destination outside India or on the insurance of such goods while in transit. This amendment will take effect retrospectively from 1-4-1968, from which date the relevant provision was introduced in the Income-tax Act.

(Clause 8)

46. *Clarificatory amendment to the provision for deduction, in the case of certain financial corporations, of profits transferred by them to a special reserve account, subject to certain limits.*—Under the Income-tax Act, financial corporations engaged in providing long-term finance for industrial development in India are entitled to a deduction in the computation of their profits, of amounts transferred by them out of such profits to a special reserve account up to a specified percentage of their total income. This concession is admissible only where the financial corporation is approved by the central government for this purpose. Up to and inclusive of the assessment year 1965-66, the amount of the deduction under this provision was limited to 10% of the total income of the corporation.

Under the Finance Act, 1966, the quantum of the deduction was increased to 25% of the total income in the case of a financial corporation having a paid-up capital not exceeding Rs 3 crores. This amendment was made with a view to facilitating the building up of internal resources of these corporations at a fast pace, so as to enable them to dispense with the need for obtaining subventions from the state governments. The amendment made by the Finance Act, 1966 was effective from 1-4-1966 and was applicable to assessments for the assessment year 1966-67, and subsequent assessment years. The intention was that in the assessment for 1966-67, any financial corporation, which was already entitled to the deduction up to 10% of its total income under the earlier law, should qualify for the increased quantum of deduction if it transfers the necessary further amount to the reserve out of the profits of the relevant previous year.

47. Financial corporations which maintain their accounts for the year ending on 30th June or near date would have closed their accounts for the previous year relevant to the assessment year 1966-67 and these accounts may also have been adopted at the general meeting of the shareholders, before the introduction of the Finance Bill, 1966. In such a case, the financial corporation can appropriate the additional amount of 15% to the special reserve only in the accounts of the following year. In order to remove any doubts about the applicability of the amended provision for the allowance of deducting up to 25% of the total income in the case of such a corporation for the assessment year 1966-67, it is proposed to make a clarificatory amendment to the relevant provision in the Income-tax Act. The amendment makes it clear that where the amount carried to the special reserve in the previous year relevant to the assessment year 1966-67 by such a financial corporation falls short of 25% of its total income, it will nevertheless be entitled to the deduction up to 25% of its total income if it transfers a further amount to such reserve in the immediately following year.

(Clause 9)

48. *Clarificatory amendment to the provision for concessional taxation of income derived by Indian companies from transfer or servicing of technical know-how.*—The Finance Act, 1969 introduced a new provision in the Income-tax Act with effect from 1-4-1970, for the concessional taxation of income received by an Indian company by way of royalties, technical service fees, etc. from any business concern in India in consideration of providing technical know-how or technical services to such concern. Under this provision, the company will be entitled to a deduction of 40% of such income in the computation of its taxable income. This provision is intended to encourage the development of local know-how by Indian companies and thereby minimise the repetitive import of technology.

49. Under the provision as originally introduced in the Finance Bill, 1969, there was a stipulation that the concessional basis of taxation will be available only where the agreement under which the technical know-how or technical services are provided, has been approved by the central government before the 1st October of the relevant assessment year During the clause-by-clause consideration of the Bill in the Lok Sabha, an amendment was made to this provision which has the effect of making the concessional basis of taxation available subject only to the condition that the approval of the central government to the relevant agreement should have been applied for before the 1st October of the assessment year, even though approval may be refused subsequently. As the provision for approval of the agreement by the central government was intended to prevent abuse of the tax concession, it is now proposed to make a clarificatory amendment to the above mentioned provision so as to make it clear that the tax concession will be available only where the relevant agreement is approved by the central government and that such approval is to be applied for before the 1st October of the relevant assessment year.

(Clause 16)

Proposed Amendments to the Wealth-Tax Act, 1957

50. *Increase in the rates of ordinary wealth-tax in the case of individuals and Hindu undivided families.*—Under the Wealth-tax Act, 1957, wealth-tax is chargeabe on the net wealth in the case of individuals, Hindu undivided families and companies. The charge of wealth-tax on the net wealth of companies was suspended under the Finance Act, 1960, and has not been revived. In the case of individuals and Hindu undivided families, the rates of ordinary wealth-tax, at present, range from 0·5 % in the lowest slab of net wealth (after the initial exemption of Rs. 1 lakh in the case of individuals and Rs.2 lakhs in the case of Hindu undivided families), to a maximum of 3% on net wealth in the slab over Rs 20 lakhs. As a measure for bringing about socio-economic equality and preventing concentration of wealth, it is proposed to increase the rates of ordinary wealth-tax in the case of individuals and Hindu undivided families from the present levels. The proposed rate is 1% in the lowest slab of net wealth (following the initial exemption of Rs.1 lakh in the case of individuals and Rs 2 lakhs in the case of Hindu undivided families, as at present) up to Rs 5,00,000; 2% on net wealth in the slab Rs 5,00, 001-10,00,000; 3 % in the slab Rs 10,00,001-15,00,000; 4% in the slab Rs 15,00,001-20,00,000; and 5% on the net wealth in excess of Rs 20,00,000.

51. *Increase in the rates of additional wealth-tax on the value of urban lands and buildings in the case of individuals and Hindu undivided families*—Additional wealth-tax is leviable at present on the value of lands and buildings situated in cities and towns with a population exceeding one lakh and included in the net wealth of individuals and Hindu undivided families. Certain initial exemptions ranging from Rs 2 lakhs to Rs 5 lakhs are provided depending upon the population of the city or town in which the land and buildings are situated. There is a further exemption of Rs 2 lakhs in all cases, and on the balance of the value of such lands and buildings, additional wealth-tax is levied at rates ranging from 1 % to 4%. The 4% rate applies to the value of urban lands and buildings over Rs 19-22 lakhs depending upon the population of the city or town in which such assets are situated. "Business premises" (i.e. buildings and lands used by the taxpayer for the purposes of his own business or profession) are excluded from the scope of the levy.

52. It is proposed to make certain modifications in the scheme of levy of additional wealth-tax in the cases of individuals and Hindu undivided families, as explained in the following paragraphs.

52.1 The additional wealth-tax will be leviable on the net value of lands

and buildings situated in "urban areas" and included in the net wealth of the individual or Hindu undivided family. For this purpose, "urban area" is being defined to mean any area within the limits of a municipality or cantonment board which has a population of not less than 10,000 according to the latest census for which relevant figures have been published. Power is being taken to the central government to bring within the term "urban area", by notification in the Official Gazette, any area falling outside the limits of any such municipality or cantonment board and up to a maximum distance of 8 kilometres from such limits. This will be done by the central government having regard to the extent of, and scope for, urbanisation of that area and other relevant considerations.

52.2. "Business premises" will continue to be excluded from the proposed levy, as at present. But the definition of "business premises" will be modified to bring guest houses maintained by business concerns within the scope of the levy of additional wealth-tax.

52.3. The initial exemption of the value of lands and buildings (other than business premises) in "urban areas" will be fixed in a uniform amount of Rs 5 lakhs, regardless of the population of the place where these assets are situated. On the excess of the value of such lands and buildings over Rs 5 lakhs, additional wealth-tax will be charged at the rate of 5% in the slab Rs 5,00,001-10,00,000, and 7% in the slab over Rs 10,00,000.

52.4. Where the net wealth of the assessee includes the value of this interest as a partner in a firm or as a member of an association of persons, and the assets of such firm or association include lands and buildings (other than business premises) situated in "urban areas", then, the interest of the assessee in such firm or association shall be regarded as partaking of the character of lands and buildings in "urban areas" to a proportionate extent. For this purpose, the proportion of the value of such "urban assets" possessed by the firm or association to the net wealth of the firm or association will be ascertained, and such proportion will be applied to the value of the assessee's interest in the firm or association to determine the extent to which such interest is to be treated as "urban assets". Likewise, where the net wealth of an assessee includes the value of a share in a closely held company (i.e. a company in which the public are not substantially interested) and appropriate proportion of the value of such share will be regarded as consisting of lands and buildings in "urban areas". This proportion will be the extent to which the net wealth of the company includes the value of lands and buildings in "urban areas" (other than business assets).

52.5. A specific provision is also being made to make it clear that, in determining the value of lands and building in "urban areas (other than business premises) for the purpose of levy of additional wealth-tax, deduction will be allowed from the gross value of such assets for debts incurred for the purpose of acquiring, improving, constructing, repairing, renewing or re-constructing such land or building. But in respect of other debts which are deductible in computing the net wealth of the assessee, these will first be deducted from the gross value of assets other than lands and buildings in "urban areas" (excluding business premises), and only the balance, if any, will be deducted from the value of such lands and buildings.

53. The above mentioned provisions, for increases in the rates of ordinary wealth-tax and changes in the scheme of levy of additional wealth tax on the value of urban lands and buildings, are being made effective from 1-4-1971, i.e. from the assessment year 1971-72. The maximum rate of ordinary wealth-tax was increased to 3% with effect from the assessment year 1969-70 under the Finance Act, 1968. Under the Bill, it is proposed to increase the maximum rate of ordinary wealth-tax to 5%. It is, therefore, proposed to omit the existing provision in the Wealth-tax Act which has the effect of limiting, to 2·5%, the wealth-tax chargeable in the case of individuals and Hindu undivided families with reference to the value of shares held by them in a company. This omission is being effected, retrospectively, from 1st April, 1969.

(Clause 26 (f)

54 *Exclusion from levy of wealth-tax, of agricultural property situated in the State of Jammu and Kashmir*.—By an amendment made in the Wealth-tax Act through the Finance Act, 1969, the levy of wealth-tax in the case of individuals and Hindu undivided families was extended to the value of agricultural property with effect from 1-4-1970, i.e. from the assessment year 1970-71. Parliament's competence to legislate for the extension of the levy of wealth-tax to agricultural property is derived from Article 248 of the Constitution (relating to the residuary powers of legislation) and entry 97 of the Union List in the 7th Schedule to the Constitution. However, Article 248 and entry 97 of the Union List, in the form in which they apply to the State of Jammu and Kashmir, do not cover taxes on the capital value of assets being agricultural land. In view of this position under the Constitution, it is proposed to amend the relevant provision in the Wealth-tax Act, 1957 to make it clear that the extension of levy of wealth-tax to agricultural property under the amendment made last year will not apply in relation to agricultural land in the State of Jammu and Kashmir.

(Clause 26 (a))

55. *Amendment of the provision relating to exemption of one residential house from wealth-tax*.—The Wealth-tax Act, at present, contains a provision under which one house or part of a house belonging to the assessee and exclusively used by him for residential purposes is not to be included in the net wealth. Where such house is situated in a place with a population exceeding 10,000, the exemption is limited to Rs 1 lakh of the value of such house or part of a house, but where the house is situated in any other place, the whole of its value is exempt from wealth-tax. It is now proposed to extend the limit of Rs 1 lakh, over the value of a residential house eligible for exemption under this provision to such houses situated even in areas with a population not exceeding 10,000. In effect, therefore, the exemption of the value of one residential house will be limited to Rs 1 lakh in all cases. This provision is being made effective from 1-4-1971, and will be applicable from the assessment year 1971-72.

(Clause 26 (b)

56. *Exemption from wealth-tax of Government securities, shares in companies, units in the Unit Trust of India, debentures issued by certain institutions or authorities and bank deposits, subject to certain limits*.—The Wealth-tax Act already provides for the exemption of investments in several small savings and other schemes of government in computing the net wealth of individuals and Hindu undivided families. These cover:

(*a*) 5-Year Fixed Deposits with the central government in the State Bank of India or in Post Offices; and (*b*)investments in specified small savings certificates to the extent of the maximum amount permitted to be invested or deposited therein, and deposits in Post Office Savings Bank accounts and Cumulative Time Deposits in Post office Savings Banks. An individual can currently invest in the deposits and small savings schemes of the central government up to a maximum of Rs 1,20,000 in his own name and up to a similar amount in the joint names of himself and his wife or in the names of his minor children. No exemption from wealth-tax is presently available in respect of units in the Unit Trust of India, government securities (other than 6½ per cent Gold Bonds, 1977,7 per cent Gold Bonds, 1980 and National Defence Gold Bonds, 1980, and the small savings certificates mentioned above), or shares in Indian companies (except for a five-year period in respect of shares in certain manufacturing companies, forming part of the initial issue of equity share capital made by such companies after 31-3-1964).

57. In order to widen the area of investments in financial assets qualifying for exemption from wealth-tax it is proposed to extend the exemption from wealth-tax to the following categories of investments :—

(*a*) Securities of the central government or any state government, generally.

(*b*) Shares in Indian companies.

(*c*) Debentures, issued by any co-operative society (including a co-operative land mortgage bank and a co-operative land development bank) or any other institution or authority, which may be notified by the central government in the Official Gazette for the purpose of this exemption.

(*d*) Units in the Unit Trust of India.

(*e*) Deposits in banking companies, including co-operative bank, land mortgage banks and land development banks.

There will be an overall limit of Rs 1,50,000 on the exemption in respect of investments in the above-mentioned assets taken together with the investments already exempt from wealth-tax, namely the 5-Year Fixed Deposits with the central government and investments or deposits in various small savings schemes of the central government already in existence or which may be instituted hereafter. This limit of Rs. 1,50,000 will not, however, apply to Cumulative Time Deposits in Post Office Savings banks, or to the Gold Bonds mentioned earlier, which will continue to be exempt as before. The existing exemption for a 5-year period of shares in certain manufacturing companies, where these form part of the initial issue of equity capital by such companies after 31-3-1964, will also be outside the purview of the above mentioned limit. Investments in the newly instituted 7-Year National Savings Certificates (II Issue), (III Issue) and (IV Issue) and deposits under the Recurring Deposits Scheme and Time Deposits Schemes in Post Offices will also be exempt from wealth-tax subject to the overall limit of Rs 1,50,000 mentioned above. It will be open to the investor to make investments in any one or more of the above mentioned categories of assets at his choice and qualify for the exemption up to Rs 1,50,000.

58. As investments in the small savings certificates and deposit schemes of the central government already exempt from tax may, in some cases, exceed the limit of Rs 1,50,000, it is being specifically provided that such investments made before the 1st March, 1970 will continue to enjoy exemption even if they exceed the overall limit of Rs 1,50,000.

59. The above-mentioned provisions are being made effective from 1-4-1971, i.e. for the assessment year 1971-72 and subsequent years.

(Clause 26 (b))

60. *Consequent provision in the Wealth-tax Act relating to distribution and allocation of work on the functional basis among Commissioners of Wealth-tax including Additional Commissioners.*—The Wealth-tax Act already provides for the distribution and allocation of work among Commissioners of Wealth-tax on the functional basis by orders of the Central Board of Direct Taxes. Consequent to the creation of a cadre of Additional Commissioners of Income-tax to take over some of the functions of the Commissioner, it may become necessary to distribute and allocate the work on the functional basis among Commissioners and Additional Commissioners for the purpose of the Wealth-tax Act as well. It is accordingly proposed to make a specific provision to cover such a situation. Under the provision as proposed, in a case where two or more Commissioners (including Additional Commissioners) have been vested with concurrent jurisdiction over any assessee, the Commissioner (or Additional Commissioner) competent to perform any function under the Wealth-tax Act will be the Commissioner (or Additional Commissioner) who is empowered to perform such function under the orders made by the Board under the existing provisions for distribution and allocation of the work among them.

(Clause 26 (c))

61. *Provision for extension of the time available for furnishing return of net wealth in certain cases.*—Under the provisions of the Wealth-tax Act, it is obligatory for every person who is liable to wealth-tax to furnish the return of his wealth voluntarily before the 30th June of the assessment year. Where a person is not able to furnish the return by that date for any reason, he may apply to the Wealth-tax Officer for extension of the time for furnishing the return, and the Wealth-tax Officer is authorised to allow such extension in deserving cases. Where the net wealth of an assessee includes the value of assets held in a business or profession for which the accounts are closed after the 31st December preceding the assessment year, the furnishing of the return of wealth by 30th of June causes inconvenience to him. This is because until the accounts have been closed and the balances ascertained (which takes a few months to be completed) the assessee will not be in a position to ascertain the value of his business assets for inclusion in his return of wealth. Under the corresponding provisions of the Income-tax Act, such an assessee is allowed time up to 6 months from the close of the accounting year to furnish his return of income.

62. In order to avoid inconvenience to assessees in the above mentioned type of cases, it is proposed to make a specific provision in the Wealth-tax Act under which the assessee will be allowed time for furnishing the return of his net wealth up to the date by which he is required to furnish the return of income in respect of such business under the Income-tax Act. Where the time for furnishing the return of income is


Service is our business
BURMAH-SHELL


HIGH TENACITY
SUPER STRONG
DCM
RAYON TYRE CORD
BACKBONE
of all
durable
tyres
DCM
TYCORD
SHRIRAM RAYONS, Kota (Rajasthan)

extended by the Income-tax Officer, such extension will be operative also for furnishing the return of net wealth in such cases.

(Clause 26 (d))

63. *Taxation of the net wealth of a private discretionary trust.*—As explained in paragraphs 19 and 20 of this Memorandum, private discretionary trusts afford scope for reduction of tax liability both in respect of income-tax on the income derived from the property settled on such trusts and wealth-tax on the assets of such trusts. In order to put an effective curb on the proliferation of such trust, it is proposed to subject the assets settled on such a trust to wealth-tax at the flat rate of 1·5% or at the appropriate higher rate of wealth-tax which would be applicable if such assets were held by an individual (who is a citizen of India and resident in India) at the progressive rates of tax applicable in the case of an individual. The flat rate of 1·5% will be applied, under the provision, to the whole of the net wealth without the initial exemption of Rs 1 lakh which is available under the rate schedule of ordinary wealth-tax in the case of individuals. Where the assets of the trust include lands and buildings in urban areas to which the additional wealth-tax applies (*vide* paragraphs 52-53 of this Memorandum), such additional wealth-tax will also be chargeable for the purpose of ascertaining whether the appropriate rate of wealth-tax chargeable on such net wealth in the case of an individual is higher or lower than the flat rate of 1·5%. Where the aggregate of ordinary wealth-tax and additional wealth-tax (if any) exceeds wealth-tax at the rate of 1·5% on the net wealth, the higher amount will be the wealth-tax payable.

64. This provision will be complementary to the proposed provision in the Income-tax Act for charging income-tax on the income of discretionary trust at the flat rate of 65% or at the appropriate higher rate of tax which would be applicable if such income were the total income of an association of persons (*vide* paragraph 21 of this Memorandum). As under the proposed provision in the Income-tax Act, exemptions are being provided from charge of wealth-tax at the flat rate of 1·5% on the following types of cases :—

(*i*) Where the assets are held under a trust declared by Will.

(*ii*) Where the trust was created by a non-testamentary instrument before the 1st March, 1970 and the Wealth-tax Officer is satisfied, having regard to all the circumstances existing at the relevant time, that the trust was created, *bonafide*, exclusively for the benefit of the dependent relatives of the settler, and where the settler is a Hindu undivided family, exclusively for the benefit of the dependent members of the family.

In these categories of cases, the net wealth of the trust will be chargeable to wealth-tax at the rates applicable in the case of an individual.

65. The provision, as stated above, will be effective from 1-4-1971, i.e. for the assessment year 1971-72 and subsequent years.

(Clause 26 (e)

Proposed amendments to the Gift Tax Act, 1958

66. *Revision of the rate structure of Gift-tax and lowering of the exemption limit*—The Gift-tax Act, at present, provides a general initial exemption of gifts made by any person during the relevant year subject to a maximum of Rs. 10,000 in value. On the balance of the value of all taxable gifts, after deducting this initial exemption, gift-tax is chargeable at progressive rates rising from 5% on the first slab of Rs. 15,000 to 50% on the amount by which the total value of all taxable gifts exceeds Rs. 14,90,000. The corresponding rates of estate duty range from 4 % on the first taxable slab of principal value (after an initial exemption of Rs. 50,000), to 85% on the principal value of the estate over Rs. 20 lakhs. With a view to bringing the rates of gift-tax more in line with the rates of estate duty and to reduce opportunities for avoidance of estate duty liability through making gifts, it is proposed to make the following changes in the rate structure of gift tax :—

66.1. The value of gifts generally exempt from gift-tax is being reduced from Rs. 10,000 to Rs. 5,000.

66.2 The slabs of taxable gifts are being regraded and the rates of gift-tax in some of the slabs are being revised upward. Under the proposed rate schedule, the rate of gift-tax on the first slab of Rs 20,000 of the value of all taxable gifts (i.e. after deducting the initial exemption of Rs 5,000 as proposed in paragraph 66.1 above) will be 5%; on the next slab Rs 20,001—50,000, the rate will be 10%; in the slab Rs 50,001 — 1,00,000, 15%, in the slab Rs 1,00,001— 2,00,000, 20%; in the slab Rs 5,00,001 — 10,00,000, 30%; in the slab Rs 10,00,001 — 15,00,000 40%; in the slab Rs 15,00,001 — 20,00,000, 50%; and on the value of all taxable gifts over Rs 20,00,000, the rate of gift tax will be 75%.

(Clause 27 (a) & (c))

67. *Consequential provision relating to distribution of work among Commissioners and Additional Commissioners on functional basis*—The Gift-tax Act already provides for the distribution and allocation of work among Commissioners of Gift-tax on the functional basis by orders of the Central Board of Direct Taxes. Consequent to the creation of a cadre of Additional Commissioners of Income-tax to take over some of the functions of the Commissioner, it may become necessary to distribute and allocate the work on the functional basis among Commissioners and Additional Commissioners for the purposes of the Gift-tax Act as well. It is accordingly proposed to make a specific provision to cover such a situation. Under the provision, as proposed, in a case where two or more Commissioners (including Additional Commissioners) have been vested with concurrent jurisdiction over any assessee, the Commissioner (or Additional Commissioner) competent to perform any function under the Gift-tax Act will be the Commissioner (or Additional Commissioner) who is empowered to perform such function under the orders made by the Board under the existing provisions for distribution and allocation of the work among them.

(Clause 27 (b))

Proposed Amendments to the Unit Trust of India Act, 1963

68. *Increase in the amount of income on units in the Unit Trust of India exempt from deduction of tax at source in the case of non-residents*—Section 32 of the Unit Trust of India Act, 1963 spells out the tax concessions available in respect of income-tax to persons investing in units

in the Unit Trust of India. Under one of these exemptions, an individua unit-holder is entitled to exemption from tax in respect of the first Rs 1,000 of income in respect of units received by him from the Trust. Under another provision, no tax is deductable from income in respect of units payable to a non-resident where such income does not exceed Rs 1,000; where such income exceeds Rs 1,000, deduction of income-tax is to be made at the rate of 15% from the whole of such income. In the context of the proposed provision in the Income-tax Act for the exemption up to Rs 3,000 of income from specified categories of investments including units in the Unit Trust of India (*vide* paragraph 14 & 15 of this Memorandum), it is proposed to make the following changes in the relevant provisions of the Unit Trust of India Act :—

(*i*) The existing provision conferring exemption from tax up to Rs 1,000 on income in respect of units is being deleted. (Under the proposed provision in the Income-tax Act, income upto Rs 3,000 in respect of units in the Unit Trust of India, taken together with income from the other categories of investments specified therein will be exempt from tax).

(*ii*) In the case of income in resect of units paid to a unit-holder who is a non-resident, tax will be deductible at source from such income only where it exceeds Rs 3,000, as against Rs 1,000 under the present provision.

(Clause 38)

Proposed Amendment to the Companies (Profits) Surtax Act, 1964

69 *Inclusion of Additional Commissioner of Income-tax in the categories of tax authorities for the purposes of surtax.*—Under the existing provision in the Companies (Profits) Surtax Act, the tax authorities for the purposes of that Act are the same as those for the purposes of the Income-tax Act. In view of the proposed amendment to the Income-tax Act to include Additional Commissioners of Income-tax in the categories of Income-tax authorities (*vide* paragraph 33 of this Memorandum), it is proposed to make a consequential amendment to the relevant provision in the Companies (Profits) Surtax Act to include Additional Commissioner of Income-tax among the tax authorities for the purposes of that Act.

(Clause 39)

CUSTOMS

The proposals include :—

(*a*) increase in the basic import duty on :—

(*i*) certain wines and spirits,
(*ii*) certain electrical resistance wires and strips,
(*iii*) synthetic resins and plastic materials and certain specified articles thereof,
(*iv*) drugs and medicines (other than antibiotics and sulpha drugs) for personal use, imported by post or air,
(*v*) certain drugs, medicines and pharmaceutical chemicals, and
(*vi*) certain items of machinery (other than those for projects), non-electrical instruments, apparatus and appliances and parts of motor vehicles ;

(*b*) continuance upto 31st March, 1971, of the special duties of customs at a rate of 10 per cent of the duty otherwise payable, on the lines of the provisoins in section 27 of the Finance Act, 1969. A notification is, however, being issued exempting all imported goods from this levy so as to maintain the *status quo ante*;

(*c*) continuance upto 15th May, 1971, of the enabling provision for the levy of a regulatory duty of customs similar to the provision in section 28 of the Finance Act, 1969;

(*d*) abolition or reduction of export duty on,—

(*i*) jute canvas, jute webbings, jute tarpaulin cloth and manufactures thereof,
(*ii*) tea,

2. The changes enumerated in sub-paras a (*i*) to (*iv*) are being given effect to by amendment of the Indian Tariff Act and those enumerated in sub-paras a (*v*), a (*vi*) and (*d*) by amendment of notifications already in force or by the issue of fresh notifications.

3. The gain in revenue after adjustment of the loss in export duty as a result of these proposals is estimated at Rs 1780 lakhs in a year. Details are given in Table I.

4. The additional revenue amounting to Rs 220 lakhs is also expected from additional. duties on imported goods corresponding to increases/levies of central excise duties. Details of these are given in Table II.

5. There will, thus, be a net increase in customs revenue of Rs 2000 lakhs made up as under :—

		Rs lakhs
Gain due to increase in basic import duties ..	(+)	2755
Gain due to increase in additional duties ..	(+)	220
Loss due to reduction or abolition of export duties	(—)	975
Net gain		2000

TABLE I

S. No.	Item No. in the Schedule to the Indian Tariff Act.	Brief description of goods	Present effective rate of duty	Proposed effective rate of duty	Additional revenue expected (+)or loss likely to be incurred (—) per annum (Rs lakhs)
(1)	(2)	(3)	(4)	(5)	(6)
		A. Import Tariff			
1.	22(3)	Wines, not containing more than 42 per cent of proof spirit—			
		(*a*) Champagne & other sparkling wines	Rs 23·50 per litre	Rs 45/- per litre	+10
		(*b*) Other sorts	Rs 14·70 per litre	Rs 30/- per litre	
2.	22 (4) (*a*)	Brandy, gin, whisky and other spirits	Rs 45/-per litre or 170 per cent *ad-valorem* whichever is higher	Rs 60/- per litre or 200%*ad-valorem*. whichever is higher	+40
3.	28,28A etc.	Drugs and medicines and chemicals for the manufacture of drugs and medicines	50%(standard) 40% (preferential)	60 % (standard) 50·%(preferential)	+100
4.	72 and various other items	Certain items of machinery and components (excluding those for projects covered by item 72A) and including certain non-ferrous metals and other articles which pay duty at machinery rate.	27½%	35%	+2150
5.	73 (23)	Nichrome and other electrical resistance wires and strips	60%	100%	+25
6.	75 (9) (10), (11), 12, etc.	Motor vehicle parts	50% (standard) 42½%(U.K.)	60% (standard) 52½%(U.K.)	+200

(1)	(2)	(3)	(4)	(5)	(6)
7.	77	Certain instruments, apparatus and appliances other than electrical	50% (standard) 40% (preferential)	60%(standard) 50% (preferential)	+40
8.	82 (3)	Synthetic resins and plastic materials and certain articles thereof.	60%	100%	+190
		Total Import duty			+2755
		B. Export Tariff			
9.	2	Jute canvas, jute webbings, jute tarpaulin cloth and manufactures thereof	Rs. 500 per tonne	Rs. 200 per tonne	— 20
10.	5	(*i*) Loose tea	15% *ad-valorem* reduced by 55 Paise per kg. or Rs 1 70 per kg. whichever is less.	Nil	— 955
10.	5	(*ii*) Package tea in consumer packs, packed in other than metal containers	5% *ad valorem* or Rs 1·70 per kg., whichever is less.		
			Total Export duty		—975
			Net.		+1780

TABLE II

ITEMS FROM WHICH SUBSTANTIAL ADDITIONAL REVENUE IS EXPECTED BY WAY OF ADDITIONAL DUTIES OF CUSTOMS

Serial No.	Item(s) in the customs tariff schedule	Brief description of the goods	Additional revenue expected (+) per annum (Rs lakhs)
1.	27 (4)	Kerosene	+100
2.	27 (6)	Motor spirit	+60
3.	39	Synthetic rubber	+10
4.	46 (6)	Non-cellulosic fibre	+10
5.	63 (10)	Tin plates	+15
6.	72 (25)	Parts of airconditioners ..	+15
7.	Various	Others	+10
		TOTAL	+220

CENTRAL EXCISE

A—CHANGES PROPOSED BY BILL

S.No.	Tariff Item No.	Description	Unit	Rates of duty: Existing Basic	Existing Addl. in lieu of Sales Tax	Proposed Basic	Proposed Addl. in lieu of Sales Tax	Estimated additional revenue during one full year
1	2	3	4	5		6		7
								(Rs. lakhs)
1.	1	Sugar						
		(*i*) Sugar other than Khandsari or palmyra		19% ad valorem	4% ad valorem	30% ad valorem	7 %ad valorem	28,50
		(*ii*) Khandsari Sugar		10% ad valorem	4% ad valorem	15% ad valorem	7½% ad valorem	
		Effective rates of duty						
		(1) Sugar other than Khandsari or Palmyra						
		(*a*) Levy Sugar		19% ad valorem	4% ad valorem	20·% ad valorem*	5%ad valorem*	
		(*b*) Free-sale sugar		19% ad valorem	4% ad valorem	30% ad valorem	7½% ad valorem	
		(2) Khandsari sugar		10% ad valorem	2½%ad valorem*	15% ad valorem	2½%ad valorem*	

Note : Compounded levy rates for Khandasari Sugar produced by units opting to work under special procedure are being adjusted.

It is a revenue measure.

*By notification [Clauses 32 (i) and 35 (i)]

S.No.	Tariff Item No.	Description	Unit	Existing Basic	Existing Addl.	Proposed Basic	Proposed Addl.	Estimated additional revenue
								(Rs. lakhs)
2.	1A	Confectionery and Chocolates						5
3.	1C	Food products produced with the aid of power, namely: (*i*) Biscuits (*ii*) Pasteurised butter (*iii*) Pasteurised or processed cheese				10% ad valorem		4,50
4.	1D	Aerated waters					10% ad valorem	2,50
5.	IE	Glucose and dextrose				10% ad valorem		85

2. Confectionery and Chocolates: The tariff description is proposed to be amended to include cocoa powder and drinking chocolates which will pay duty at 10% *ad valorem*. This change is in line with the levy of 10% duty on like products falling under item 1 B. [Clause 32 (ii)]

3. Food products: This new levy has been proposed as revenue measure. [(Clause 32 (*iii*)]

4. Aerated waters: This new levy has been proposed as a revenue measure and will be confined to aerated waters produced with the aid of power and sold under a brand name or a registered trade mark. (Clause 32 (iii)

5. Glucose and dextrose: This new levy has been proposed as a revenue measure. [(Clause 32 (iii)]

1	2	3	4	5	6	7
						(Rs. lakhs)
6.	2	Coffee				25

Tariff description is proposed to be amended to include "Instant Coffee" as a new sub-item. It will pay basic duty at 10% ad valorem in addition to duty on coffee-cured used in its manufacture. It will not, however, pay special excise duty. It is a revenue measure.

(Clause 32 (iv)

7.	3	Tea				7,90*
		(1) Tea, all varieties except package tea	Kg.	66 Paise	Rs. 2·00	
		(2) Package tea	Kg.	46 Paise + loose tea duty	Rs. 1·25+loose tea duty	

The tariff description is proposed to be amended to include "Instant tea" as a new sub-item, which will pay duty at 10% ad valorem in addition to duty on loose tea if used in its manufacture.

*Break-up details of this figure are as shown below :

(*i*) Due to increase in duty on loose teas less loss due to rebate in excise duty on teas exported	2,87
(*ii*) Due to increase in duty on package teas	5,00
(*iii*) Instant tea	3
	7,90

Effective rates of duty (by notification)

(*a*) Loose tea			
Zone— I	Kg.	25 Paise	No change
II	Kg.	40 Paise	50 Paise
III	Kg.	50 Paise	Rs 1·50
IV	Kg.	55 Paise	Re 1·00
V	Kg.	65 Paise	Rs 1·15
(*b*) Package tea			
(*i*) in packets containing 25 gms. or less	Kg.	40 Paise plus loose tea duty	No change
(*ii*) In containers containing more than 25 gms. but not more than 20 kgs.	Kg.	40 Paise plus loose tea duty	Re 1·00 plus loose tea duty

Note:—(1) Loose tea will continue to be exempted from special excise duty.

(2) Rebate of excise duty is proposed to be given on loose teas exported on or after 15.4.1970 which would be equivalent to 30% of the f.a.s. price in excess of Rs. 5·25 per kg. subject to a maximum of 75 Paise per kg. Similar rebate will be admissible on loose teas exported on consignment account to foreign destinations and on the loose tea contents of package teas exported. Full rebate of package tea duty referred to in (*b*) above will continue to be admissible in addition.

This is a measure to make up partially the substantial loss in revenue because of abolition of export duties. It would also restrain internal consumption so that more tea becomes available for export.

2. Tea contained in packets containing 25 gms. or less which is mostly consumed in rural areas/by labour classes will not bear the proposed increase in duty on package tea.

3. Loose green tea will continue to pay the present excise duty.

[Clause 32 (v)]

8.	4II (2)	Cigarettes			13,50
		Basic	125% ad valorem	150% ad valorem	
		Additional in lieu of Sales Tax	25% ad valorem	25% ad valorem	
		Special	20% of basic duty	20% of basic duty	
					(Rs. Lakhs)

Effective rates of duty (by notification

Value for 1000		Ad Valorem			Ad Valorem		
Exceeds	Does not exceed	B %	S %	A %	B %	S %	A %
Rs.	Rs.						
25·00	—	107·5	21·5	23·0	125·0	25·0	24·0
7·50*	25·00	72·5	14·5	14·0	80·0	16·0	15·0
..	7·50*	40·0	8·0	5·0	42·5	8·5	5·0

[*Note :—The limit of Rs. 7·50, wherever it exists, is being raised to Rs 9·50)]

B—Basic excise duty

S—Special excise duty

A—Additional excise duty in lieu of sales tax

It is a revenue measure.

[Clause 32 (vi)]

			Rs.	Rs.	Rs.	Rs.
9.	6	Motor spirit	Kilo litre	620·0	720·0	21,36

It is a revenue measure

[Clause 32 (vii)]

10.	14A	Soda Ash	5% ad valorem	10% ad valorem	85

It is a revenue measure

[Clause 32 (viii)]

1	2	3	4	5	6	7
						(Rs. lakhs)
11.	14AA	Chemicals, namely :— (1) Calcium carbide (2) Bleaching paste and Bleaching powder (3) Sodium hydrosulphite			10% ad valorem	1,85
		This new levy has been proposed as a revenue measure			[Clause 32 (ix)]	
12.	14B	Caustic Soda It is a revenue measure.		5% ad valorem	10% ad valorem	1,70
					[Clause 32 (x)]	
13.	16AA	Synthetic rubber It is a revenue measure	Tonne		Rs. 300/-	90
					[Clause 32 (xi)]	
14.	19	Cotton Fabrics				Nil

The tariff description is proposed to be amended to include "butta fabrics" and "round mesh mosquito netting" in the category at present subjected to ad valorem levy instead of specific rated levies. It has no revenue significance.

[Clauses 32 (xii) and 35 (ii)]

1	2	3	4	5	6	7
15.	22	Rayon or artificial silk fabrics				12,18
		Basic	Sq. metre	7 paise	10 % ad valorem	
		Additional in lieu of sales tax	,,	3·6 paise	2·5 % ad valorem	
		Special		20·% of basic duty	20 % of basic duty	
		Effective rates of duty by notifications	Paise per sq. metre		Ad Valorem	

Value per sq. metre: Exceeds	Does not exceed	Paise per sq. metre: Basic	Addl.	Ad Valorem: Basic	Addl.
Rs.	Rs.				
..	2·50	3·5	3·6	2%	0·6%
2·50	3·50	3·5	3·6	3·5%	1·5%
3·50	5·00	3·5	3·6	5·0%	2·0%
5·00	..	3·5	3·6	6·5%	2·2%

Note :—There will be no change in the present rates of :—
(*i*) handloom cess of 1·9 paise per sq. metre
(*ii*) special excise duty of 20% of basic duty.

It is now proposed to subject the artificial silk fabrics which include rayon, nylon, terylene, terycot, terywool, etc. to a graded levy related to the prices instead of specific rates of duty.

The cheaper fabrics whose wholesale price does not exceed Rs 2.50 per sq. metre will get some relief.

Unprocessed artificial silk fabrics will continue to be exempted.

[Clauses 32 (xii) and 35 (iii)]

1	2	3	4	5	6	7
16.	23B	Chinaware and porcelainware				72
		(2) Sanitary ware		15% ad valorem	25% ad valorem	
		(3) Glazed tiles		10% ad valorem	25% ad valorem	
		It is a revenue measure			[Clause 32 (xiv)]	
17.	26AA	Iron or steel products				Nil

The amendment of tariff description is consequential to the insertion of a new item "slotted angles and channels made of steel." It has a no revenue significance.

[Clause 32 (xv)]

1	2	3	4	5	6	7
18.	27	Aluminium	Tonne			4,70
		(*a*) (*i*) in any crude form including ingots, etc.		Rs. 950 00	25% ad valorem	
		(*ii*) wire bars, etc.	,,	,,	,,	
		(*b*) manufactures namely,—plates, sheets etc.	,,	Rs. 145·00	25% ad valorem	
		(*c*) Foils, etc.	,,	Rs. 2000·00	20% ad valorem	
		(*d*) Pipes and tubes, etc.		20% ad valorem	25% ad valorem	
		(*e*) Extruded shapes and sections, etc.		20% ad valorem	25% ad valorem	

Note:—The special excise duty at 20% of basic duty will continue to be charged in addition. The partial concessions granted in respect of special excise duty are being withdrawn.

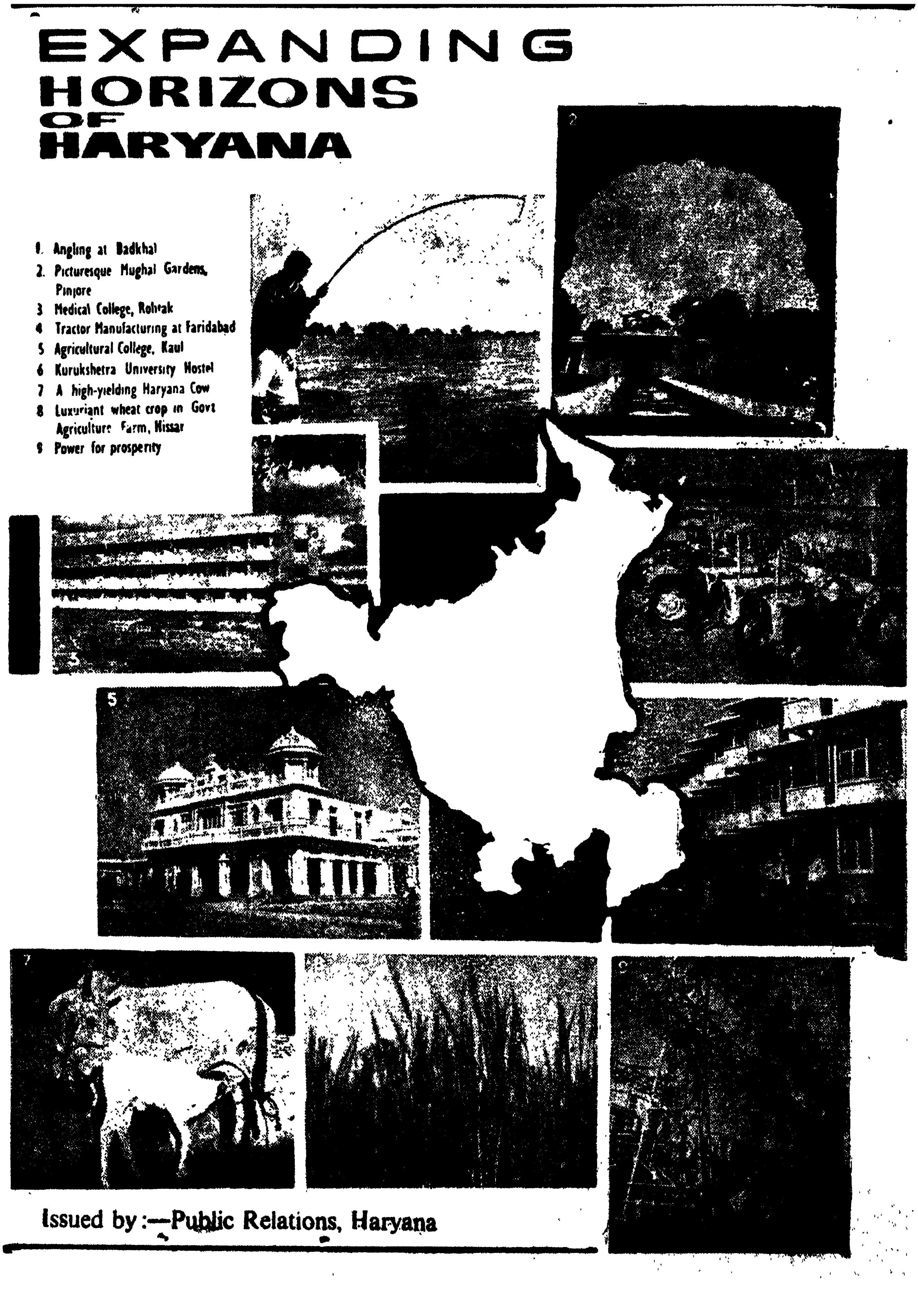
It is proposed to replace the existing specific rated levies on crude aluminium and its products by *ad valorem* levies, suitably rationalised.

(Clause 32 (xvi)

1	2	3	4	5	6	7
19	28	Tin Plates and Tin Sheets	Tonne	Rs 375·00	Rs 400.00	Nil

The statutory rate of duty is proposed to be raised to Rs. 400·00 as a measure of rationalisation. This will do away with the present anomaly of indigenous tinplates/tinned sheets paying a higher cumulative duty than the countervailing duty borne by the imported tin plates/tinned sheets. This change will have effect only on imported tin plates/sheets which will pay higher countervailing duty to the extent of the increase proposed.

(Clause 32 (xvii)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1	2	3	4	5	6	7
						(Rs. lakhs)
20.	29A	Refrigerating and Air-conditioning appliances and machinery, all sorts and parts thereof				1,12
		(1) Refrigerators, etc.		30 % ad valorem	40 % ad valorem	
		(2) Air Conditioners etc.		30 % ad valorem	40 % ad valorem	
		(3) Parts thereof		40 % ad valorem	50 % ad valorem	

Note :—The existing special excise duty of 33 % of the basic duty continues.

It is a revenue measure. Smaller domestic refrigerators of capacity not exceeding 165 litres and components required for cold storage plants, air conditioning of factory establishments and hospitals run by government, local bodies and charitable trusts will not be [illegible] the proposed increase in duty.

(Clause 32 (xviii)

1	2	3	4	5	6	7
21.	33D	Office machines and apparatus			10% ad valorem	2,00

This new levy has been proposed as a revenue measure. The levy at present will be confined to 30 items of office machines and apparatus listed in a notification which exempts all the others.

(Clause 32 (xix)

1	2	3	4	5	6	7
22.	40	Steel furniture				Nil

Tariff description is proposed to be amended to include parts of such furniture, for clarification of certain doubts in the matter of assessment of unassembled furniture. It has no revenue significance.

(Clause 32 (xx)

1	2	3	4	5	6	7
23.	44	Sparking plugs			10% ad valorem	80
24.	45	Safety razor blades made of stainless steel			10% ad valorem	10
25.	46	Metal containers ordinarily intended for packaging of goods for sale			10% ad valorem	6,50
26.	47	Slotted angles and channels made of steel			10% ad valorem	50
27.	48	Safes, Strong-boxes, strong-room linings; Cash and Deed boxes, etc. of base metal			10% ad valorem	50

These new levies have been proposed as a revenue measure.

(Clause 32 (xxi)

B—Special Excise Duty, Additional Excise (in lieu of Sales-tax) Duty, Regulatory Duty and Discontinuance of salt duty.

Except where already indicated otherwise, there is no change in the existing effective rates of special excise duty and additional excise (in lieu of sales-tax) duty.

2. The enabling provision for levy of a regulatory duty of excise, as in the past year, is being continued. However, the regulatory duty is not being imposed on any commodity for the present.

3. Provision for the discontinuance of salt duty is proposed to be continued during the financial year 1970-71 also.

(Clauses 33,34 and 36)

C—CHANGES PROPOSED BY NOTIFICATION

S. No.	Tariff Item		Commodity	Unit	Rate of duty (Basic) Existing	Rate of duty (Basic) Proposed	Estimated addl. revenue in one full year
1	2		3	4	5	6	7
					Rs.	Rs.	(Rs. lakhs)
1	1B	Prepared or preserved foods		10% ad valorem	10% ad valorem	10% ad valorem	50
			The notification specifying the taxable items has been amended to include 13 more products such as (*i*) vegetable juice; (*ii*) synthetic syrups; (*iii*) dehydrated peas; (*iv*) milk powder, etc. 2. Milk food specially prepared for feeding infants will not bear this duty.				
2	7	Kerosene		Kl.	235·00	235·00	
		Effective rate of duty					
		Superior Kerosene		Kl.	205·25	225·25	9,20
			It is a revenue measure. No change is proposed in the duty on inferior kerosene which is used as an illuminant in rural areas.				

1	2	3	4	5	6	7
						(Rs. lakhs)
3	10	Furnace Oil	Kl.	75·45	75·45	
		Effective rate of duty				
		Furnace Oil	Kl.	50·75	70·75	9,00
		It is a revenue measure. This increase will, however, not have any impact on the furnace oil supplied to coastal as well as foreign going vessels and for electricity generation.				
4	14	Pigments, colours paints, enamels, varnishes, blacks and cellulose lacquers				(—)12
		As a measure of relief to the cottage sector, pigments, colours, paints, enamels, varnishes, blacks and cellulose lacquers produced in non-power operated factories are proposed. to be exempted.				
5	14AH	Fertilisers				(—)18
		Fertiliser mixtures (containing more than one nutrient) made with the aid of power out of duty paid base fertilisers are being exempted by notification.				
6	15A	Plastics		30% ad valorem	30% ad valorem	96
		Product stage duty is proposed to be levied on (*a*) unlaminated rigid plastic boards and sheets at 20% ad valorem basic and (b) un-supported P.V.C. sheets at 25% ad valorem basic by suitable modification of the notifications exempting them at present. Duty, if any, paid on the synthetic resins used in their manufacture will be set off against the duty on the end-product. Special excise duty at 20% of the basic duty will also be chargeable.				
7	17	Paper				(—)13
		Mill boards and Straw boards	Kg.	35 paise	35 paise	
		Effective rates of duty				
		Clearances for home consumption	Paise	Paise		
		(*i*) on the first 500 metric tonnes	Kg.	10	no change	
		(*ii*) on the next 500 metric tonnes	Kg.	18	14	
		(*iii*) on the next 500 metric tonnes	Kg.	28	22	
		(*iv*) on quantity in excess of 1500 metric tonnes	Kg.	31	no change	
		(*iv*) on quantity in excess of 1500 metric tonnes	Kg.	31	no change	
		It is a measure of relief to the small-scale units. These boards will continue to be eligible to the existing exemption from Special Excise Duty.				
8	18	Rayon and Synthetic fibres and yarn	Kg.	45·00	45·00	1,60
		Effective rates of duty				
		Staple fibre of non-cellulosic origin				
		(*a*) Acrylic fibre	Kg.	4·50	No change	
		(*b*) Polyester fible of 2 deniers or less	Kg.	21·00	25·00	
		(*c*) Others	Kg.	21·00	No change	
		It is revenue measure. Special excise duty at 33⅓% of basic duty will also be chargeable.				
9	33A	Television Receiving Sets		20% ad valorem	20% ad valorem	40
		It is proposed to withdraw the exemption in respect of broadcast television receiver sets and subject them to basic duty of 15% ad valorem. Special excise duty at 33⅓% of basic duty will also be chargeable.				


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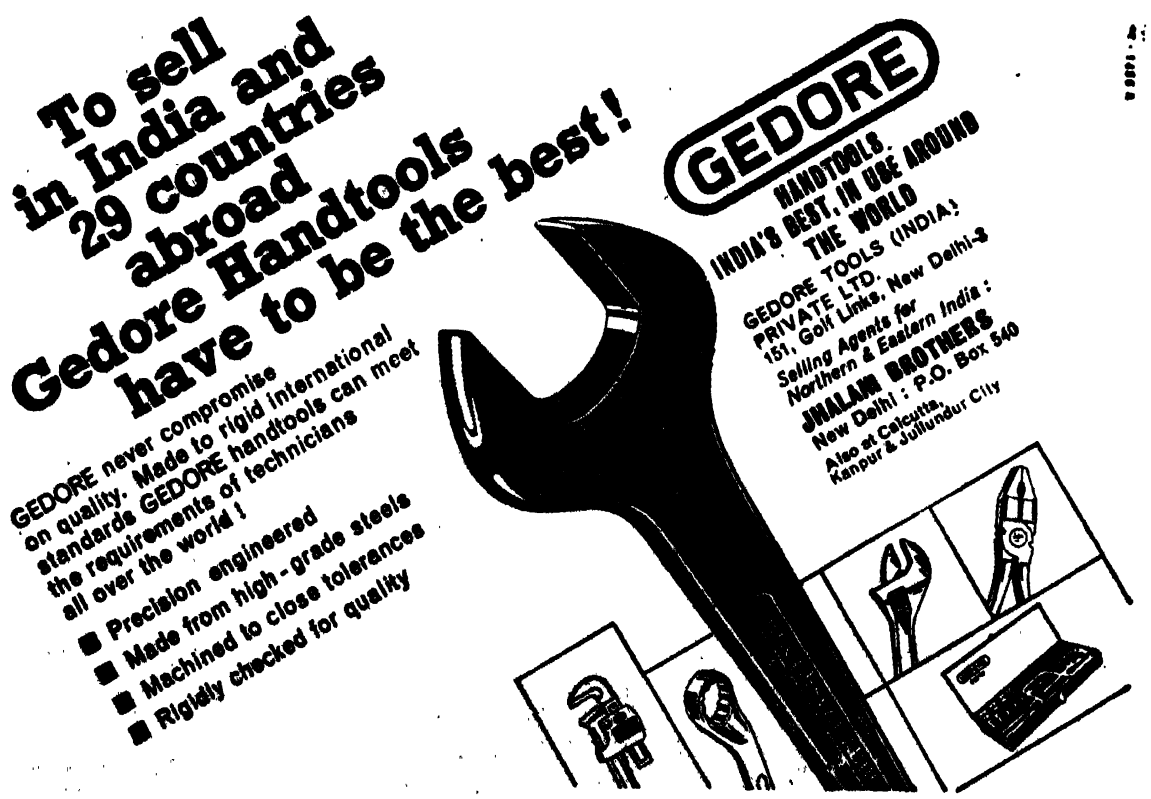
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ABSTRACT—CENTRAL EXCISE

(Rs. in lakhs)

S. No.	Tariff Item No.	Commodity	Estimated additional revenue in one full year: Basic excise duty (+)	Basic excise duty (—)	Special excise duty (+)	Special excise duty (—)	Additional excise duty in lieu of sales tax (+)	Additional excise duty in lieu of sales tax (—)	Total (+)	Total (—)
		I. Existing Items								
1.	1 (1)	Vacuum pan sugar	2008	..	..	..	832	..	2840	..
2.	1 (2)	Khandsari Sugar	10	..	..	..	..	..	10	..
3.	1A	Confectionery and chocolates	5	..	..	..	..	..	5	..
4.	1B	Prepared or preserved foods	50	..	..	..	..	..	50	..
5.	2	Coffee	25	..	..	..	..	..	25	..
6.	3	Tea	790	..	..	..	..	..	790	..
7.	4 II (2)	Cigarettes	1050	..	159	..	141	..	1350	..
8.	6	Motor Spirit	2136	..	..	..	..	..	..	2136
9.	7	Superior Kerosene	920	..	..	..	..	..	920	..
10.	10	Furnace oil	900	..	..	..	..	..	900	..
11.	14	Paints and Varnishes	..	10	..	2	..	..	..	12
12.	14A	Soda Ash	85	..	..	..	..	..	85	
13.	14B	Caustic Soda	170	..	..	..	..	..	170	..
14.	14HH	Fertilisers	..	18	..	..	..	..	..	18
15.	15A	Plastics	80	..	16	..	..	..	96	..
16.	17	Paper	..	13	..	..	..	..	..	13
17.	18	Rayon and Synthetic fibres and yarn	120	..	40	..	..	..	160	..
18.	22	Artificial Silk fabrics	870	..	123	..	225	..	1281	..
19.	23B	Chinaware and Porcelainware	72	..	..	..	..	..	72	..
20.	27	Aluminium	285	..	185	..	..	..	470	..
21.	29A	Refrigerating and Air Conditioning Machinery & Appliances	84	..	28	..	..	..	112	..
22.	33A	Television Receiving Sets	30	..	10	..	..	..	40	..
		II. New Items								
1.	1C	Food products	450	..	..	..	..	..	450	..
2.	1D	Aerated Waters	250	..	..	..	..	..	250	..
3.	IE	Glucose and dextrose	85	..	..	..	..	..	85	..
4.	14AA	Chemicals, namely— Calcium Carbide Bleaching powder Sodium hydrosulphite	185	..	..	..	..	..	185	..
5.	16AA	Synthetic Rubber	90	..	..	..	..	..	90	..
6.	33D	Office machines	200	..	..	..	..	..	200	..
7.	44	Sparking plugs	80	..	..	..	..	..	80	..
8.	45	Safety razor blades of stainless steel	10	..	..	..	..	..	10	..
9.	46	Metal containers	650	..	..	..	..	..	650	..
10.	47	Slotted angles or channels of steel	50	..	..	..	..	..	50	..
11.	48	Safes, Strong-boxes etc. made of base metal	50	..	..	..	..	..	50	..
		TOTAL OF I AND II	11790	41	561	2	1198	—	13549	43
			=11749		=559		=1198		=13506	

SUMMARY

(Rs. in lakhs)

	States' and U.T.s' share	Centre's share	Total
(a) Basic excise duty	2350	9399	11749
(b) Special excise duty	..	559	559
(c) Additional excise duty in lieu of sales tax ..	1198	..	1198
TOTAL ..	3548	9958	13506

ANNEXURE—A

STATEMENT SHOWING IN SELECTED CASES TAX PAYABLE AND AS A PERCENTAGE OF TOTAL INCOME, ON TOTAL INCOMES RANGING FROM Rs 4,000 TO Rs 10,00,000.

(See Paragraph 3)

Income	Unmarried individual		Married individual		Married individual having one dependent child		Married individual having more than one dependent child	
	TAX		TAX		TAX		TAX	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	percentage
1	2	3	4	5	6	7	8	9
Rs	Rs		Rs		Rs		Rs	
4,000	..	..	..	..	..	..	..	..
5,000	138	2·76	55	1·10	33	0·66	11	0.22
6,000	248	4·13	165	2·75	143	2·38	121	2·02
7,000	358	5·11	275	3·93	253	3·61	231	3·30
8,000	468	5·85	385	4·81	363	4·54	341	4·26
9,000	578	6·42	495	5·50	473	5·26	451	5·01
10,000	688	6·88	605	6·05	583	5·83	561	5·61
12,000	1,062	8·85	979	8·16	957	7·98	935	7·79
14,000	1,436	10·26	1,353	9·66	1,331	9·51	1,309	9·35
15,000	1,623	10·82	1,540	10·27	1,518	10·12	1,496	9·97
16,000	1,876	11·73	1,793	11·21	1,771	11·07	1,749	10·96
18,000	2,382	13·23	2,299	12·77	2,277	12·65	2,255	12·53
20,000	2,888	14·44	2,805	14·03	2,783	13·92	2,761	13·81
24,000	4,208	17·53	4,125	17·19	4,103	17·10	4,081	16·67
25,000	4,538	18·15	4,455	17·82	4,433	17·73	4,411	17·64
30,000	6,738	22·46	6,655	22·18	6,633	22·11	6,611	22·04
36,000	10,038	27·88	9,955	27·65	9,933	27·59	9,911	27·53
42,000	13,338	31·76	13,255	31·56	13,233	31·51	13,211	31·45
48,000	16,638	34·66	16,555	34·49	16,533	34·44	16,511	34·40
60,000	24,338	40·56	24,255	40·43	24,233	40·39	24,211	40·35
72,000	32,368	44·96	32,285	44·84	32,263	44·81	32,241	44·78
90,000	45,238	50·26	45,155	50·17	45,133	50·15	45,111	50·12
1,00,000	52,388	52·39	52,305	52·31	52,283	52·28	52,261	52·26
5,00,000	3,74,138	74·83	3,74,055	74·81	3,74,033	74·81	3,74,011	74·80
10,00,000	7,86,638	78·66	7,86,555	78·66	7,86,533	78·65	7,86,511	78·65

ANNEXURE—B

INCOME TAX PAYABLE IN THE CASE OF AN INDIVIDUAL, HINDU UNDIVIDED FAMILY, UNREGISTERED FIRM, ASSOCIATION OF PERSONS ETC., AT THE RATES PROPOSED IN THE BILL FOR COMPUTATION OF ADVANCE TAX AND DEDUCTION OF TAX AT SOURCE FROM "SALARIES DURING THE FINANCIAL YEAR 1970-71

A. BASIC INCOME-TAX (i.e. exclusive of surcharge)

Total Income	Tax	For calculating tax at intermediate levels of income.
Rs	Rs	
6,000	100	For every additional Rs 10 of income, ADD Re 1·00 to the tax.
7,000	200	
8,000	300	
9,000	400	
10,000	500	
10,000	500	For every additional Rs 10 of income, ADD Rs 1·70 to the tax.
11,000	670	
12,000	840	
13,000	1,010	
14,000	1,180	
15,000	1,350	
15,000	1,350	For every additional Rs 10 of income, ADD Rs 2·30 to the tax.
16,000	1,580	
17,000	1,810	
18,000	2,040	
19,000	2,270	
20,000	2,500	
20,000	2,500	For every additional Rs 10 of income, ADD Rs 3 00 to the tax.
21,000	2,800	
22,000	3,100	
23,000	3,400	
24,000	3,700	
25,000	4,000	
25,000	4,000	For every additional Rs 10 of income, ADD Rs 4·00 to the tax.
26,000	4,400	
27,000	4,800	
28,000	5,200	
29,000	5,600	
30,000	6,000	
30,000	6,000	For every additional Rs 10 of income, ADD Rs 5 00 to the tax.
31,000	6,500	
32,000	7,000	
33,000	7,500	
34,000	8,000	
35,000	8,500	
36,000	9,000	
37,000	9,500	
38,000	10,000	
39,000	10,500	
40,000	11,000	
40,000	11,000	For every additional Rs 10 of income, ADD Rs 6·00 to the tax
41,000	11,600	
42,000	12,200	
43,000	12,800	
44,000	13,400	
45,000	14,000	
46,000	14,600	
47,000	15,200	
48,000	15,800	
49,000	16,400	
50,000	17,000	
51,000	17,600	
52,000	18,200	
53,000	18,800	
54,000	19,400	
55,000	20,000	
56,000	20,600	
57,000	21,200	
58,000	21,800	
59,000	22,400	
60,000	23,000	

Total Income	Tax	For calculating tax at intermediate levels of income.
Rs.	Rs.	
60,000	23,000	For every additional Rs 10 of income, ADD Rs 7·00 to the tax.
61,000	23,700	
62,000	24,400	
63,000	25,100	
64,000	25,800	
65,000	26,500	
66,000	27,200	
67,000	27,900	
68,000	28,600	
69,000	29,300	
70,000	30,000	
71,000	30,700	
72,000	31,400	
73,000	32,100	
74,000	32,800	
75,000	33,500	
76,000	34,200	
77,000	34,900	
78,000	35,600	
79,000	36,300	
80,000	37,000	
80,000	37,000	For every additional Rs 10 of income, ADD Rs 7·50 to the tax.
90,000	44,500	
1,00,000	52,000	
1,00,000	52,000	For every additional Rs 10 of Income, ADD Rs 8·00 to the tax.
1,50,000	92,000	
2,00,000	1,32,000	
2,00,000	1,32,000	For every additional Rs 10 of income, ADD Rs 8·50 to the tax.
3,00,000	2,17,000	
4,00,000	3,02,000	
5,00,000	3,87,000	
6,00,000	4,72,000	
7,00,000	5,57,000	
8,00,000	6,42,000	
9,00,000	7,27,000	
10,00,000	8 12,000	
11,00,000	8,97,000	
12,00,000	9 82,000	
13,00,000	10,67,000	
14,00,000	11,52,000	
15,00,000	12,37,000	
16,00,000	13,22,000	
17,00,000	14,07,000	
18,00,000	14,92,000	
19,00,000	15,77,000	
20,00,000	16,62,000	

B. SURCHARGE

To the income-tax calculated as stated above, ADD 10% thereof, by way of surcharge

C. EXAMPLE OF TAX CALCULATION :

Income	Rs 27,560
A—Basic income-tax :	
On Rs 27,000	Rs 4,800
On Rs 560......56 x 4	Rs 224
Rs 27,566	Rs 5,024
B—Add surcharge @10% of the basic income-tax	Rs. 502·40
Tax payable	Rs 5,5364·40
rounded off to the nearest rupee)	Rs 5,256

Postal Rates Raised

THE PROPOSED REVISION IN POSTAL, TELEGRAPH AND TELEPHONE TARIFFS ARE SET OUT BELOW :

SECTION I

POSTAL (INLAND)

	Item	Existing Tariff		Proposed Tariff	
1.	Parcels	Per 400 grams	80 P	Per 400 grams	90 P
2.	*Registration fee		75 P		95 P
3.	Value payable articles— Posting Fee	Not exceeding Rs. 25	10 P	For each article	25 P
		Exceeding Rs. 25	20 P		
4.	Money Order Commission	Per Rs. 10, upto Rs. 200	20 P	Per Rs. 10, upto Rs. 100	20 P
		Per Rs. 20, beyond Rs. 200	30 P	Per Rs. 20, above Rs. 100	40 P
5.	Telegraphic money orders— Supplementary fee		15 P		50 P
6.	Book, Pattern & Sample Packets (excluding) book packets containing printed books only or periodicals only).	Upto 50 grams Per 25 grams	15 P	Upto 50 grams	20 P
		thereafter	10 P	Per 25 grams thereafter	10 P

*The proposed tariff will apply to registered articles in the foreign post also.

Section I—Estimated additional revenue in a year........Rs. 5·45 crores.

SECTION II

TELEGRAPHS

	Item	Existing Tariff			Proposed Tariff		
1.	Phonogram fee (Booking of telegrams on telephone)		20 P			40 P	
2.	Inland Greeting Telegrams		Ordinary	Express		Ordinary	Express
			Rs.	Rs.		Rs.	Rs.
		First 8 words	1·20	2·40	First 8 words	1·40	2·80
		Each additional word	0·10	0·20	Each additional word	0·10	0·20

Section II—Estimated additional revenue in a year..........Rs. 0·22 crores.

SECTION III

TELEPHONES

1.	Measured Rate systems				
	Call Charges	First 150 calls per quarter	No charges (covered by quarterly rent)	First 150 calls per quarter	No charges (covered by quarterly rent)
		For each extra call	15 P	Next 600 calls per quarter	15 P per call
				For each Call in excess of 750 calls per quarter	20 P per Call

Section III—Estimated additional revenue in a year................Rs. 2·55 crores.

SUMMARY OF ESTIMATED ADDITIONAL REVENUE IN A YEAR

Section I—Postal Tariffs	Rs. 5·45 crores
Section II—Telegraph Tariffs	Rs. 0·22 crores
Section III—Telephone Tariffs	Rs. 2·55 crores
TOTAL	Rs. 8·22 crores

Savings Schemes

LISTED BELOW are the savings schemes and the tax incentives for savings to which the Prime Minister and Finance Minister, Mrs Indira Gandhi, made references in Part 'A' of her budget speech :

The fourth Plan envisages the raising of resources on a larger scale than hitherto, both in urban and rural areas. In this context, the mobilization of household savings becomes all the more important, especially in view of its potentialities. Among the measures to be taken for the purpose, the intensification of the small savings movement and the issue of rural debentures have been particularly mentioned in the Plan document. In pursuance of this objective, it is proposed to make certain changes in the Small Savings Schemes in order to make them more attractive to the genuine small saver and also to lay down a set of model terms and conditions for guidance in the matter of the issue of debentures, particularly in rural areas, for financing local schemes.

Small Savings

The Small Savings Schemes which are in operation at present and the changes that are being made therein are explained below.

(a) POST OFFICE SAVINGS BANK

Existing Scheme :

Deposits may be made in the Post Office Savings Bank from Rs 5 upwards up to Rs 25,000 in an account of an individual (adult or minor) and Rs 50,000 in a joint account. Certain types of institutions and provident funds can also open accounts in the bank, there being no limit to the amount that may be held therein. Interest at 3½ per cent per annum free of income-tax is allowed on accounts opened by individuals (including joint holdings) and provident funds and at 3 per cent per annum on institutional accounts. The bank operates through a net work of 83,300 offices of which over 66,500 are in rural areas.

Changes being made :

Interest at 4 per cent per annum will be allowed on the minimum balance held throughout a financial year provided such balance is not less than Rs 100. Amounts in multiples of Rs 100 may also be blocked for 2 or 3 years on intimation to the Post Office at which the account stands, in which event the amounts so blocked will earn interest at a higher rate viz., 4½ per cent simple (about 4¼ per cent per annum compound) for amounts blocked for 2 years and 4⅔ per cent simple (about 4¼ per cent compound) for amounts blocked for 3 years. Thus, an amount of Rs 100 blocked for 2 years will amount to Rs 109 after 2 years and that blocked for 3 years to Rs 114. The rest of the balance in the account will earn interest at normal rates i.e., 3½ per cent or 4 per cent per annum, as the case may be. Interest in all cases will continue to be tax-free.

The above changes will apply to individual and joint accounts as also provident fund accounts (but not other institutional accounts) and will come into force from 1st April, 1970.

(b) FIXED DEPOSIT ACCOUNTS

Existing Scheme :

Amounts in multiples of Rs 50, subject to a maximum of Rs 25,000 in an account of an individual (adult or minor) and Rs 50,000 in a joint account may be invested in 5-Year Fixed Deposits, both at Post Offices and at State Bank branches. Under the scheme, a sum of Rs 100 appreciates to Rs 125 at the end of 5 years, yielding a tax-free interest of 5 per cent per annum simple (about 4½ per cent per annum compound).

Changes being made :

(a) The maturity value of the 5-Year Fixed Deposits is being increased by Re 1 for every deposit of Rs 100. Thus, a sum of Rs 100 will now appreciate after 5 years to Rs 126 representing an increase in the interest rate to about 5¼ per cent simple (about 4¾ per cent compound). Premature encashment will be allowed on completion of 3 years, the amount repaid being Rs 114 for every Rs 100 invested and the yield 4⅔ per cent simple (about 4¼ per cent compound). The interest will continue to be free of income-tax. The limit for holding will also continue to be Rs 25,000 for an individual and Rs 50,000 for joint holdings.

The above change will come into force from 16th March, 1970.

(b) Apart from the above, a new scheme of deposits called the Post Office (Time Deposits) carrying no special tax concessions is being introduced for the benefit of small savers who may either be non-tax-payers or pay tax at low rates. Under this scheme, Time Deposits in multiples of Rs 50 for 1, 3 and 5 years will be accepted in Post Offices doing Savings Bank work. Only individuals (adult or minor) or two individuals jointly may invest in the new Time Deposits but there will be no limit to the amount that may be deposited. Interest will be payable annually at the rate of 5½ per cent for 1 year deposits, 6¼ per cent for 3 year deposits and 6¾ per cent for 5 year deposits. The interest is subject to income-tax but there will be no deduction at source.

The new Time Deposit Scheme will come into force from 16th March, 1970 in the Post Offices and will be extended to the State Bank offices later. As the printing of Pass Books will take some time, temporary receipts will be issued to depositors till the printed pass books become available.

(c) CUMULATIVE TIME DEPOSITS

Existing Scheme :

There are three types of Cumulative Time Deposit accounts, viz.. 5, 10 and 15 year accounts. These are available to individuals (adult or minor) or two individuals jointly. Amounts in multiples of Rs 5 (as may be selected when opening the account) but subject to a maximum of Rs 500 per month may be deposited every month into the account, the principal, together with accrued interest, being repayable at the end of the period. Deposits may also be made in advance in lump covering a period of 6/12 months at a suitable discount. The maturity values for a monthly deposit of Rs 10 are Rs 670 for a five-year account, Rs 1,500 for a ten-year account and Rs 2,600 for a fifteen-year account. The rates of interest work out to 4·5 per cent compound for 5 and 10 year accounts and 4·8 per cent compound for 15-year accounts. The interest is exempt from income-tax in all cases. In addition, deposits in the 10 and 15-year accounts qualify for deduction from income for purposes of income-tax on the same pattern as for life insurance premiums and provident fund contributions. A depositor may withdraw up to 50 per cent of the deposits made, once in a 5-year account, twice in a ten-year account, and thrice in a fifteen-year account.

Changes being made :

(a) The rates of interest at maturity of the 5 and 10-year accounts are being increased to about 4¾ per cent per annum compound and of the 15-year accounts to 5 per cent per annum compound. Accordingly every deposit of Rs 10 per month in a 5-year account will amount to Rs 675 at maturity against Rs 670 at present. The maturity value of a 10-year account for a like amount will be Rs 1,530 against Rs 1,500 at present, and of a 15-year account, Rs 2,655 against Rs 2,600 at present.

(b) Apart from the above, a new scheme, called the Post Office (Recurring Deposit) Scheme is being introduced. Under this scheme, individuals (adult or minor) or two individuals jointly may deposit amounts in multiples of Rs 5 (to be selected when opening an account) monthly for a period of 5 years at any Post Office doing Savings Bank work, the principal together with accrued interest calculated at nearly 6¼ per cent per annum being repayable at the end of the period. The maturity value of an account of the denomination of Rs 10 will accordingly be Rs 700. There will be no limit on the monthly deposits. Deposits covering a period of 6/12 months may also be made in lump in advance at a suitable discount. The interest will be subject to income-tax but tax will not be deducted at source. There will be only one type

of account viz., a 5-year account. One withdrawal not exceeding 50 per cent of the amount in deposit will be permitted.

The above changes will come into force from 1st April, 1970. As the printing of Pass Books will take some time, temporary receipts will be issued to depositors till the printed pass books become available.

(*d*) SAVINGS CERTIFICATES

Existing Scheme

(*i*) 12-*Year National Defence Certificate* : This Certificate is sold through Post Offices, and provides for repayment of principal together with interest after 12 years, amounting in all to Rs 180 for every Rs 100 invested. Encashment at proportionate values is permissible any time after the lock-up period of one year. The interest is exempt from income-tax.

(*ii*) 10-*Year Defence Deposit Certificate* : This Certificate is sold through offices of the Reserve Bank of India, the State Bank of India, and its subsidiaries and the Post Offices. It provides for payment of interest annually and the principal at maturity or earlier. Premature encashment after the lock-up period of one year is also permitted subject to a suitable discount. The interest which works out to 5 per cent at maturity is free of income-tax.

(*iii*) 10-*Year National Savings Certificate* (*I Issue*): This Certificate is sold through Post Offices and State Bank of India and provides for repayment of principal together with interest after 10 years, amounting in all to Rs. 180 for every Rs. 100 invested. Encashment is permissible after the lock-up period of two years. The interest is liable to tax at the average rate applicable to the holder under the Income-tax Act, 1961, but no tax is deducted at source.

Changes being made :

The Certificates mentioned above will be discontinued and replaced by three new varieties of 7-Year National Savings Certificates, their details being as follows :

(*i*) 7-*year National Savings Certificate* (*II Issue*) : This Certificate will be sold through Post Offices doing Savings Bank work and will be available in denominations of Rs. 10, Rs. 100, Rs. 1,000 and Rs. 5,000. The amount invested together with interest calculated at about 5 per cent per annum compound will be repaid after 7 years. For every Rs 100 invested the maturity value will be Rs. 141. Encashment before maturity will be allowed after 3 or 5 years at Rs. 114 (yielding about 4½ per cent per annum compound) and Rs. 126 (yielding about 4¾ per cent per annum compound) respectively for a Certificate of Rs 100. The interest will be exempt from income-tax.

(*ii*) 7-*year National Savings Certificate* (*III Issue*) : This Certificate will also be sold through Post Offices and will be available in denominations of Rs. 100, Rs. 1,000, and Rs. 5,000. Interest at 5 per cent per annum will be payable annually but the principal will be returned after 7 years. Encashment before maturity will be allowed after 3 or 5 years subject to a suitable discount, e.g., for a Rs. 100 certificate the encashment value after 3 years will be Rs. 98·50 and after 5 years Rs. 98·75. The interest will be exempt from income-tax.

The limit of investment in the National Savings Certificates, II and III Issue, taken together will be Rs. 25,000 for an individual (adult or minor) and Rs. 50,000 for two individuals jointly. A registered trust and a registered association or body may invest up to Rs. 50,000; a co-operative society including a co-operative bank, local authority and a registered institution donations to which are exempt from income-tax upto Rs. 1,00,000. Provident funds may invest without any limit. These limits will be inclusive of investment in the earlier tax-free certificates.

(*iii*) 7-*year National Savings Certificate* (*IV Issue*) : This certificate will also be sold through Post Offices and will be available in denominations of Rs. 100, Rs. 1,000 and Rs. 5,000. Interest at 7¼ per cent will be payable annually but the principal will be returned after seven years. Premature encashment will be permitted after 3 or 5 years subject to a suitable discount, e.g., for a Certificate of Rs 100, the encashment value after 3 years will be Rs. 96 and after 5 years Rs. 97. The interest will be subject to income-tax but there will be no deduction of tax at source. There will be no limit for investment in these Certificates. Only individuals (adult or minor), including two individuals jointly, will be allowed to invest in these Certificates.

The above changes will come into force from the 16th March, 1970 in the Post Offices and will be extended to State Bank offices later. As the printing of the new Certificates may take some time, temporary receipts will be issued to investors till the printed Certificates become available.

A statement summarising the changes which are being made is appended at the end.

PUBLIC PROVIDENT FUND SCHEME

Existing Scheme:

The scheme is operated at all branches of the State Bank of India and its subsidiaries. Under the scheme any adult may on his own behalf or on behalf of a minor open an account and make deposits not exceeding Rs. 15,000 in a financial year. The subscriptions qualify for deduction from income for purposes of income-tax on the same pattern as life insurance premiums, deposits in 10 and 15 year Cumulative Time Deposit accounts and contributions to other recognised provident funds. The deduction is computed at 60 per cent of the first Rs. 5,000 and 50 per cent of the balance of all such savings, subject to a ceiling (on savings for this purpose) of 30 per cent of the subscriber's income or Rs. 15,000 whichever is less. Interest payable on the deposits is to be notified by the government every year. The interest rate fixed for the current year was 4·8 per cent per annum compound, free of income-tax. The balance in the account can be withdrawn at any time after 15 years. The scheme permits withdrawals within limits after five years of opening an account. During of the first five years, however, a depositor may take loans from his account.

Changes being made :

The rate of interest payable on the deposits in the Public Provident

Fund is being increased from 4·8 per cent to 5 per cent per annum compound with effect from 1st April, 1970.*

DEBENTURES

Approved state-sponsored institutions may issue debentures to raise resources (particularly in rural areas) in order to finance local schemes. By approved state-sponsored institutions is meant corporations, cooperatives (including land mortgage or development banks) and other authorities, as may be approved by the central government in this behalf.

MODEL TERMS AND CONDITIONS

Who may issue

(*i*) Approved state-sponsored institutions may issue debentures at any time during the year subject to limits approved by the Reserve Bank but these will not be underwritten.

Security.

(*ii*) The debentures may be secured by a general floating charge on all the assets of the institution. It may be advisable however to leave unencumbered a portion of the fixed assets so as to facilitate borrowing from the banking system, when necessary.

Who may service

(*iii*) The issues may be handled by banks and recognised brokers, besides the institutions concerned. The debentures may be serviced subsequently by the institutions concerned and/or by banks.

Who may purchase

(*iv*) The debentures may be sold only to individuals, including two or more individuals jointly.

Redemption of debentures

(*v*) The debentures may be redeemed at par after 7 years from the date of issue.

Interest

(*vi*) The debentures will not be guaranteed by government, central or state. They may carry interest around 7½ per cent per annum payable semi-annually, the rate being settled in consultation with the Reserve Bank. The interest will be liable to tax under the Income-tax Act but there will be no deduction at source.

*Simultaneously the interest rate applicable to the balances in the General Provident Fund and similar provident funds for Central Govern-ment employees is also being stepped up. The rates in force at present are 5·25 per cent on the first Rs. 10,000 and 4·8 per cent on the rest of the balance in the provident funds. The rate in respect of the first Rs. 10,000 will now be 5½ per cent with effect from 1st April, 1970.

TAX CONCESSIONS IN RESPECT OF SAVINGS

INCOME TAX

Existing Provisions :

The Income Tax Act provides for the following concessions in respect of investments in the savings schemes of the central government:-

(*i*) The whole of the interest on the 12-Year National Defence Certificates and 10-Year Defence Deposit Certificates (which are currently on tap) as also on the earlier series of the Treasury Savings Deposit Certificates, the Post Office Cash Certificates, the Post Office National Savings Certificates, National Plan Certificates and 12-Year National Plan Savings Certificates is exempt from income-tax.

(*ii*) The whole of the interest on the balances in Post Office Savings Bank accounts, 5-year, 10-year and 15-year Cumulative Time Deposit accounts and bonus in respect of such deposits, and the 5-Year Fixed Deposits with the central government (whether in the State Bank of India or in the Post Offices) is exempt from income-tax. The interest on the Public Provident Fund Accounts is also likewise exempt from income-tax.

(*iii*) National Savings Certificates (I Issue) including Bank series of such Certificates also enjoy concessional tax treatment for purposes of income-tax. The interest on the investments in these Certificates is liable to income-tax but such interest is treated as a separate block and income-tax is charged thereon at the average rate of tax applicable to the other ordinary income of the investor. Interest on these Certificates is also payable without deduction of tax at source.

Note :—The above tax concessions are available to the extent to which the amounts invested/deposited do not exceed, in each case, the maximum amount which is permitted to be invested/deposited under the terms of issue of the Certificates/Accounts.

(*iv*) Deposits in 10 and 15-year Cumulative Time Deposit Accounts as also subscriptions to the Public Provident Fund qualify for deduction from taxable income along with savings in other approved forms like recognised provident funds and life insurance. For this purpose, the aggregate savings in these forms is subject to a ceiling of 30 per cent of an individual's income or Rs. 15,000, whichever is less. The deduction will be computed at 60 per cent of the first Rs. 5,000 of the qualifying savings and 50 per cent of the balance.

Changes being made :

2. The above tax concessions will continue to be available even after the discontinuance of the 12-Year Natonal Defence Certificates, 10-Year Defence Deposit Certificates and the National Savings Certificates (I Issue). In so far as changes detailed in this Memorandum are concerned, the following tax concessions will be available :—

(*i*) Post Office Savings Bank accounts — The interest at the in-

creased rates mentioned earlier on balances in such accounts will continue to enjoy complete exemption from income-tax as at present.

(*ii*) Cumulative Time Deposit Scheme—Interest on balances in 5-year, 10-year and 15-year accounts under the scheme will continue to be exempt from income tax as at present.

(*iii*) 5-Year Fixed Deposits with the central government — Interest on these will continue to be exempt from income-tax as at present.

(*iv*) Public Provident Fund Accounts — Interest on these will continue to be exempt from income-tax as at present.

(*v*) 7-Year National Savings Certificates (II Issue) and 7-Year National Savings Certificates (III Issued)—Interest on these will be exempt from income-tax as in the case of 12-Year National Defence Certificates and 10-Year Defence Deposit Certificates.

(*vi*) 5-Year Recurring Deposits in Post Offices bearing interest at approximately 6¾ per cent; 1-year, 3-year and 5-year Time Deposits in Post Offices bearing interest at 5½ per cent; 6¼ per cent and 6¾ per cent respectively; and 7-Year National Savings Certificates (IV Issue) bearing interest at approximately 7¼ per cent — Interest on these will be subject to tax but such interest will be payable without deduction of tax at source. Interest on investments in these deposits and certificates will qualify for exemption upto a maximum of Rs. 3,000 in a year, along with the interest on deposits in banking companies and co-operative banks, dividends on shares in Indian companies, income from Units of the Unit Trust of India, interest on approved debentures and interest on securities generally.

3. Deposits in 10 and 15-year Cumulative Time Deposit accounts and subscriptions to the Public Provident Fund will continue to enjoy the benefits referred to in paragraph 1 (IV) above.

WEALTH TAX

Existing Provisions :

The Wealth Tax Act provides for the following concessions in respect of investments in the savings schemes of the central government :—

(*i*) The whole of the deposits in the fixed deposits with the central government (whether in State Bank of India or in Post Offices) is exempted from Wealth Tax.

(*ii*) The whole of the investments in 12-Year National Defence Certificates and 10-Year Defence Deposit Certificates(which are currently on tap) as also in the earlier series of Treasury Savings Deposit Certificates, Post Office Cash Certificates, Post Office National Savings Certificates, National Plan Savings Certificates is exempt from Wealth Tax.

(*iii*) Deposits in Post Office Savings Bank Accounts, including 5-year, 10-year and 15-year Cumulative Time Deposit Accounts are exempt from Wealth Tax.

Note :—The above tax concessions are available to the extent to which the amounts invested/deposited do not exceed in each case the maximum amount which is permitted to be invested/deposited under the terms of issue of the Certificates/Accounts. Further, the investments/deposits except fixed deposits, must be held for a minimum period of 6 months ending with the relevant valuation date in order to qualify for the exemption.

(*iv*) Balances in the Public Provident Fund are also exempt from Wealth Tax.

Changes being Made :

2. The above tax concessions will now be replaced by the following provisions whether in respect of the Certificates/Accounts mentioned above or the new savings schemes explained earlier in this Memorandum :—

(*i*) Cumulative Time Deposit Scheme— Deposits in 5-Year, 10-Year and 15-Year accounts under the scheme will continue to enjoy exemption from wealth-tax.

(*ii*) Public Provident Fund Scheme—Balances in the Public Pro-

vident Fund will continue to be exempt from Wealth tax.

(*iii*) Deposits in Post Office Savings Bank accounts (excluding deposits under the Cumulative Time-Deposit Scheme) ; 5-Year Fixed Deposits with the central government (whether in the State Bank of India 3-Year and 5-Year Time Deposits in Post Offices ; 7-Year National Savings Certificates (II Issue), 7-Year National Savings Certificates (III Issue) and 7-Year National Savings Certificates (IV Issue);

Investments in the above savings schemes taken together with the investments in the existing savings schemes mentioned in the preceding paragraph (other than deposits under the Cumulative Time Deposit Scheme and balances in the Public Provident Fund), and also investments in shares of Indian companies, Units in the Unit Trust of India, approved debentures, deposits in banking companies or co-operative banks, and government securities generally (except Gold Bonds series, 1977 and 80 which are wholly exempt and will continue to be exempt), will enjoy exemption from Wealth-tax subject to a maximum of Rs. 1,50,000.

Where the investments made by a person before 1.3.1970 in the existing small savings schemes which are exempt from Wealth Tax (viz. those referred to in para 1 above except the Cumulative Time Deposits and balances in Public Provident Fund) exceed the limit of Rs.1,50,000, such investments will continue to be exempt as long as they are held by him.

All the above investments/deposits must be held for a minimum period of 6 months ending with the valuation date in order to qualify for this exemption.

APPENDIX

STATEMENT SHOWING THE CHANGES WHICH ARE BEING MADE IN THE SMALL SAVINGS SCHEMES.

	Maturity/premature encashment value for Rs 100	Interest-compound (approximate)
I. Post Office Savings Bank (TAX FREE)		
(*a*) Where a balance of not less than Rs 100 is maintained throughout a financial year.		4 per cent on such balance.
(*b*) Where a part of the balance in an account is held as 'blocked deposit'.	for 2 years Rs. 109 for 3 years Rs. 114	4½per cent on such 4½per cent)blocked deposit.'
II. Cumulative Time Deposit Scheme (Tax Free)		
5-Year Account ..	Rs. 675	4½ per cent
10-Year Account ..	Rs. 1530	4¾ per cent
15-Year Account ..	Rs. 2655	5 per cent
III. Post Office (Recurring Deposit) Scheme (Taxable)		
5-Year ..	Rs. 700	6½ per cent
IV. Tax-Free Securities		
(*a*) 5-Year Fixed Deposit		
After 3 years ..	Rs. 114	4½per cent
After 5 years ..	Rs. 126	4¾per cent
(*b*) *7-year National Savings Certificates (II Issue)*		
After 3 years ..	Rs. 114	4½ per cent
After 5 years ..	Rs. 126	4¾ per cent
After 7 years ..	Rs. 141	5 per cent
(*c*) *7-year National Savings Certificates (III Issue)*		
After 3 years ..	Rs. 98·50	4½ per cent
After 5 years ..	Rs. 98·75	4¾ per cent.
After 7 years ..	Rs.100·00	5 per cent.
V. Taxable Securities		
(*a*) *Post Office (Time Deposits)*		
1-Year Time Deposits		5½ per cent
3-Year Time Deposits		6¼ per cent
5-Year Time Deposits		6¾ per cent
(*b*) *7-year National Savings Certificates (IV Issue)*		
After 3 years ..	Rs. 96	6¼ per cent
After 5 years ..	Rs. 97	6¾ per cent
After 7 years ..	Rs. 100	7¼ per cent.

Towards Growth with Social Justice

IN PRESENTING the budget, the Prime Minister referred to some of the new initiatives for the well-being of the needy and the poor in the shape of schemes for small farmers and agricultural labour, nutrition programmes for pre-school and school children, housing and urban development, rural drinking water supply and social security benefits for industrial workers and government employees. The main features of these schemes and the financial provisions made for them are outlined in the following pages. The increased employment opportunities arising from some of these and other programmes are also outlined.

MEASURES TO BENEFIT SMALL FARMERS AND AGRICULTURAL LABOUR

PART I: FOURTH PLAN

Introduction

India's rural population consists predominantly of small farmers cultivating holdings up to 2 hectares and of landless agricultural labour. Of all rural households, small farmers represent 52 per cent and agricultural labour represent 24 per cent. Yet only about 19 per cent of the cropped area is comprised within small holdings.

2. The problems of small farmers and of landless labour are particularly acute in areas of poor rainfall and/or inadequate irrigation. Out of nearly 138 million hectares under cultivation, only about 20 per cent have irrigation facilities. If we consider the distribution of rainfall, about 42 million hectares have a relatively assured rainfall of 1125 mm and above. As many as 128 districts accounting for about 68 million hectares have low to medium rainfall, under 1125 mm annually, and these also have very limited irrigation facilities. Twelve of these districts already have 30-50 per cent of their cropped area under irrigation and are thus relatively better off. At the other end of the spectrum, 25 districts are characterised by very poor rainfall in the range of 375-750 mm annually with an irrigated area of 5-10 per cent of the cropped area. These districts, mainly in central Rajasthan, Saurashtra and in the rain-shadow regions of the Western Ghats in Mysore and Maharashtra have the maximum instability in agricultural production. In between these two extremes, are 91 districts mainly in Madhya Pradesh Gujarat, Maharashtra, Andhra Pradesh, Mysore, Uttar Pradesh, Haryana and Tamil Nadu which constitute the typical dry land farming areas with annual rainfall ranging from 750 to 1125 mm. The total net sown area in these districts is 42 million hectares of which about 5 million hectares


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are irrigated. It is these dry land farming tracts which hold good promise of responding to an appropriate new package of technology.

3. The new agricultural strategy has tended to accentuate the disparities inherent in this situation of a highly skewed land distribution and the large proportion of cultivated area dependent on dry farming. Although in certain areas, the new technology has resulted in an increase in the demand for agricultural labour and a rise in agricultural wages, the new strategy, by and large, has tended to bypass the marginal cultivator and the landless labourer. In some parts of the country, it has even resulted in growing insecurity of tenure to the small farmers.

Approach to the problem

4. In this context, government attach very high priority in the fourth Plan and in the annual plans and budgets to measures specifically designed to enable the weaker sections of the rural population to participate in the benefits of economic growth in the rural sector. The principal objective is that employment and income opportunities for the rural poor and the productive potential of the economically weak farmer should be significantly increased. Towards this end, action is necessary on a variety of fronts, by the centre and state governments and with the support of resources from the budget, the credit system and also from local resource mobilisation.

5. Apart from the structural change in the ownership and cultivation of land to be brought about through land reform, government will place emphasis on :

—a reorientation of programmes for agricultural credit, minor irrigation, animal husbandry etc. to benefit the small farmer and the agricultural labourer.

—the formulation and implementation of special programmes to benefit the weaker and more vulnerable sections of the rural population.

Reorientation of general programmes

6. In the first category, a large public investment of Rs 300 crores is being undertaken for community irrigation works to benefit small farmers who would be unable individually to have access to these facilities. In rural credit, steps have been initiated to reorient the lending policies and procedures of the co-operative institutions in favour of the small farmers. These include :

(*i*) The needs of the small cultivators will be adequately met on a priority basis even if the resources of a particular society are inadequate to meet the requirements of all the members.

(*ii*) Larger cultivators will be called upon to contribute a relatively higher proportion of their borrowings towards share capital.

(*iii*) Lending policies of land development banks will be liberalised to benefit the small cultivators such as by liberalisation of valuation of landed property offered as security issue of joint loans to groups of small cultivators, emphasis on the operational and economic viability of investments as opposed to the mere value of tangible security, and phasing of repayments on easier terms for small cultivators.

(*iv*) It will also be an objective of the Agricultural Refinance Corporation to provide assistance for schemes on an area basis designed to enable the small farmers to take advantage of the plan programmes in agriculture, dairying, poultry and other programmes.

7. The fourth Plan also includes a provision of Rs 150 crores for the Rural Electrification Corporation. The Corporation's assistance is available for viable projects whether situated in economically advanced areas or backward areas. Moreover because of the availability of this assistance, the state electricity board will be able to direct a larger proportion of their rural electrification schemes, for which a total outlay of Rs 350 crores is envisaged, to the more backward rural areas.

Specific programmes

8. The specific programmes in the Plan for small farmers, agricultural labour and dry areas are designed to improve the condition of :

(i) Small but potentially viable farmers
(*ii*) Sub-marginal farmers and agricultural labour
(*iii*) Dry land farming
(*iv*) Chronically drought-affected areas.

9. A provision of Rs 235 crores is proposed in the central budgets during the plan period for these programmes as follows :

	Rupees crores
(*i*) 45 projects for the development of small but potentially viable farmers	67·5
(*ii*) About 40 projects for sub-marginal farmers and Agricultural labour, ...	47·5
(*iii*) Dry land farming	20·0
(*iv*) Rural works and labour-intensive activities in chronically drought-affected areas	100·0
	235·0

10 It is necessary to emphasise that in addition to these budgetary expenditures, the first three of the above programmes, especially the programme for small but potentially viable farmers, are expected to attract sizable financial support from institutional sources and the nationalised banking system resulting in a total outlay about 3 to 4 times that indicated above.

11. As regards dry farming, a sizable outlay has been provided in the state plans for promoting soil conservation measures, the bulk of which will be utilised by the state governments in dry areas. Benefits will also accrue to dry areas from the outlays provided for development of animal husbandry and dairying. In the centrally-sponsored sector, funds have been provided for the development of commercial crops such as oil seeds and cotton. Since these crops are grown largely in

areas with 75 cm and less of rainfall, it is estimated that more than two thirds of the outlay under this programme will be used in the areas characterised by dry farming conditions.

PART II: ANNUAL BUDGET AND PLAN FOR 1970-71.

Financial Provisions

12 The Budget and the Annual Plan for 1970-71 contain the following provisions to reflect the objectives and the approach set forth above. For the chronically drought-affected areas, a sum of Rs 25 crores has been provided in the Central Budget. As regards development of small farmers and agricultural labour a sum of Rs 4·5 crores has been provided in the Budget and this provision will be increased in the light of the actual progress made in the course of the year. For the special programme of dry farming, the Central Budget includes a provision of Rs 2 crores. As pointed out earlier, the outlays provided above are to be further supported by funds from institutional sources such as co-operative banks, nationalised commercial banks, Agricultural Refinance Corporation and Land Development Banks.

Small but Potentially Viable Farmers

13. During the formulation of the fourth Plan, certain studies on the problems of small farmers were carried out at the instance of the Planning Commission. These studies have shown that while the handicaps of such farmers differ from area to area, the major disadvantages they suffer from are fargmentation of holdings, inadequate and untimely supply of inputs and water, insecurity of tenure, lack of sufficient credit facilities and unsatisfactory arrangements for marketing and storage. These studies also show that the small farmers are no less progressive than the large farmers in their willingness to adopt modern inputs and agricultural practices The approach to the problem of small but potentially viable farmers, should therefore consist not much in developing a different technological as in providing them with the resources to participate in the available technology.

14. In the light of the above analysis, a special programme has been initiated for development of small but potentially viable farmers. During 1969-70. three projects, for Purnea District in Bihar, Darjeeling District in West Bengal and Chhindwara District in Madhya Pradesh, have been approved and Small Farmers Development Agencies have started functioning in these districts. Proposals have also been formulated by the concerned state governments for similar small farmers projects in the South Arcot District in Tamil Nadu, in the Srikakulam, Nalgonda and Cuddapah Districts in Andhra Pradesh and the Ratnagiri, Yeotmal and Nanded Districts in Maharashtra. Other state governments are engaged in working out proposals for their areas.

15. Under these programmes, each selected district will have a Small Farmers Development Agency which will be a registered society consisting mainly of state government representatives and receiving funds directly from the central government. The main functions of this agency will be to identify the problems of small farmers in its area, prepare appropriate programmes, ensure availability of inputs, services and credit and evaluate progress from time to time. To the maximum extent possible, this will be sought to be done through existing institutions—public, co-operative and private —as also local authorities such as Zila Parishads. The agency can also assist small farmers in respect of other services, such as land levelling machinery and marketing and wherever necessary, the agency may directly undertake certain services for the benefit of small farmers. With a view to stimulating the flow of co-operative credit to such cultivators, it will provide grants to the central co-operative bank, the agricultural credit societies and the co-operative land development bank in the area as an incentive for financing this class of farmers and to help these societies create special funds for covering the risks apprehended in such financing. In addition, the agency will provide a subsidy to those institutions for strengthening their managerial and supervisory staff for this purpose. It will also draw up model plans for investment and production activities to be undertaken by small farmers operating under different sets of conditions.

16. In 1970-71, the programme for the development of small but potentially viable farmers will be carried further. The districts where Small Farmers Development Agencies have already been set up will go ahead with the implementation of the programme while a number of new districts will be selected during the year where the programme will be expanded. Since the programme requires considerable preparatory action, the actual rate of expenditure will take sometime to accelerate. It is on this assumption that a sum of Rs 4·5 crores has been provided in the budget for 1970-71. Depending on actual progress, further funds will be found. One of the crucial elements in the programme is to use the budgetary funds as a catalyst for attracting supplementary resources from the institutional sources such as co-operatve banks, Agricultural Refinance Corporation and Land Development Banks. A close and constant liaison will be maintained between the centre and the concerned state governments in regard to the implementation of these programmes for ensuring the organisational effort which is crucial for the success of the programme.

Sub-marginal Cultivators

17. While the focus in the various projects meant for small but potentially viable farmers is essentially on intensive agriculture, for the large class of sub-marginal farmers and agricultural labour, the remedy lies mainly in the provision of fuller employment on the basis of an area development approach as part of local development planning. For this purpose, it is proposed to have about 40 projects in the next four years. These projects will be market based, i.e., centred around areas of consumer demand so that there is scope for development of employment-oriented activities such as poultry and dairy farming. Stress will also be laid on using funds for the development of the marketing and processing infrastructure with a view to giving organised support to the activities of sub-marginal cultivators and agricultural labour wherever possible through co-operatives. These projects will be kept distinct from the other set of projects for the potentially viable farmers, although their areas of operation may coincide in certain areas. In the latter case, it may be possible to use the Small Farmers Development Agency as the instrument for executing both the schemes. In other cases, a separate but analogous agency will need to be set up for the purpose.

Dry Farming

18. The programmes envisaged for development of dry land farming

are in two complementary directions, *viz.*, research on improved dry farming technology and the application of such technology in dry farming areas. Research on dry farming techniques has so far proceeded in a number of centres and in the Central Arid Zone Research Institute of Jodhpur. However, it has not so far been possible to develop an integrated package of technology. In the budget for 1970-71, a provision of Rs 26 66 lakhs has been made for taking up an All India Co-ordinated Research Project on dry land farming for strengthening of research under rain-fed conditions. Under this project, research will be taken up at a number of centres representing various agro-climatic regions. Different aspects of research such as breeding drought resistant varieties, water harvesting, minimum irrigation, minimum tillage, fertilizer application, soil and moisture conservation will be included within the scope of this project. In addition, research projects will also be intensified at the Central Arid Zone Research Institute, Indian Grassland and Fodder Institute and in eight Soil Conservation Centres. In the budget for 1970-71, provision has also been included for All India Co-ordinated Research Projects for commercial crops, such as, cotton wherein special attention will be given to the problems of these crops under rain-fed conditions.

19. A new centrally-sponsored scheme has been included in the budget for 1970-71 to popularise and promote the adoption of the following principal constituents of the new technology :

(*i*) Soil management ;
(*ii*) Harvesting of water ;
(*iii*) New crop varieties ; and
(*iv*) New agronomic practices.

Soil management will include measures relating to soil structure, soil fertility and correction of alkalinity of the soil. As regards harvesting of water, it is observed that most of the rainfall in dry areas is received during the South-West monsoon period and because of the poor soil structure and the undulating topography much of the moisture is lost. Hence steps are necessary for popularisation of modern water harvesting procedures, including the use of aluminium foil and polythelene film. One of the most important aspects will be the introduction of new crop varieties. The development of quick-yielding and photo-insensitive varieties has opened up new possibilities. For instance, short duration varieties of castor, arhar and jowar have been developed. It will be necessary to extend their adoption so as to expand the area under double cropping. The application of nutrients through foliar feeding is another important new agronomic practice which will be promoted.

Rural Works programme

20 As stated earlier, 40 projects will be taken up in the next four years for the development around a market-nucleus of employment-oriented activities such as poultry and dairy farming to benefit sub-marginal farmers and agricultural labour. The problems of agricultural labour are particularly acute in chronically drought-affected areas and relief can be provided to them only by taking up a concerted programme of rural works which have a high employment potential and can, at the same time, increase the productivity of land and labour. With this objective, a substantial provision of Rs 100 crores is proposed to be spent on rural works in the next four years in chronically drought-affected areas. The budget for 1970-71 includes a provision of Rs 25 crores for this purpose.

21. Having regard to various relevant factors such as irrigation facilities, rainfall distribution etc., 40 districts have been chosen in various states for taking up the rural works programme. Their break-up statewise is as follows :

Rajasthan	10
Andhra Pradesh	6
Haryana	1
Uttar Pradesh	3
Mysore	5
Maharashtra	8
Gujarat	7

22. In these districts, planned action will be taken to frame a suitable

rural works programme which will be labour-intensive. The programmes will include schemes such as medium and minor irrigation works, nalabunding and percolation bunds, soil conservation measures, fodder and afforestation schemes, construction of village and district roads etc. These works will be integrated into local area development programmes designed to generate a longer-term employment potential for agricultural labour.

Conclusion

23. The attack on the poverty of small cultivators and agricultural labourers in India will have to be speeded up on several fronts — institutional, technological and in resource allocation. In the long run, we cannot contemplate any dichotomy between growth and equity and it is the central purpose of the fourth Plan and the annual plans and budgets to speed up the process of growth in the agricultural and industrial sectors. The specific programmes outlined for the small cultivators and agricultural labour recognise that income disparities in the rural areas have to be deliberately corrected during the process of growth. The beginnings towards this objective may be small at the present time in relation to needs but they are being so devised and implemented as to be capable of rapid acceleration in the future. The budget for 1970-71 incorporates this policy objective in the shape of the schemes described in this note.

EMPLOYMENT OPPORTUNITIES

Introduction

One of the central objectives of our development plans is to create more employment and the Plan is also the main instrument for increasing employment opportunities. In presenting the Budget, the Prime Minister has pointed out that the provision of employment opportunities is not just a welfare measure. It is a necessary part of the strategy of development in a poor country which can ill-afford to keep any resources unutilised or under-utilised. The budget also seeks to fully seize the opportunities for growth inherent in the current economic situation and has provided for a total plan outlay which, by being about Rs 400 crores higher than plan outlay in 1969-70, represents a substantial effort to accelerate the pace of development.

2. Along with this significant increase in the level of plan outlays, there is also a specific orientation in many of the new schemes proposed to be implemented from this budget on creating greater employment potential especially in the rural areas. Labour-intensive schemes such as the construction of roads, minor irrigation, soil conservation, rural electrification, dairy development, village and small industries and housing and urban development could be mentioned in this connection. The increasing tempo of agricultural development, will itself create new employment opportunities on a large scale in rural areas besides providing fuller employment to those engaged in agriculture. It is also important to bear in mind that in many of these programmes plan outlays will be supplemented to a significant extent from credit resources made available by financing institutions such as the Co-operative banks, the Agricultural Refinance Corporation, the Land Development Banks, the Agro-industries Corporations, the Rural Electricity Corporation and the commercial banks. The succeeding paragraphs outline the employment potential in the major new schemes proposed to be implemented during the fourth Plan period.

Small farmers

3. A plan outlay of Rs 115 crores has been provided for the schemes for the development of small farmers, sub-marginal cultivators and agricultural labour. The small farmers scheme, with an outlay of Rs 67·5 crores is likely to attract sizable support from the credit system. It is expected that each of the 45 projects for small farmers will benefit about 50,000 farmer families and the overall programme could generate employment opportunities to the extent of 320 million man days per annum.

Dry farming

4. The integrated dry land agricultural development scheme is, in substance, a combined research-cum-development programme which will be organised on the lines of the National Demonstration Scheme which has proved a success in promoting the high-yielding varieties programme. The funds provided by the centre for this scheme will be supplemented by the outlays on soil conservation in the state plans and with institutional finance. In this way the full benefits of the programme will be tapped and its coverage expanded to a large number of farmers. The principal components of the scheme viz. soil conservation, land development and water-harvesting will be labour-intensive. It is estimated that for every one crore of expenditure on such works carried out in an open season of 6 months in a year, the employment potential will be about 15,000 man years. The implementation of the scheme will also create employment for technical and supervisory personnel of various categories.

Dairy Development

5. One of the priority programmes in the plan is to increase the availability of wholesome milk at reasonable prices to meet the requirements of our growing population and especially to cater to the vulnerable sections such as infants, school children, expectant and nursing mothers, hospital patients. etc who are deficient in animal/protein diet. During the fourth Plan, the organised sector of the dairy industry will be extended to smaller towns with emphasis on milk production in the surrounding rural areas so as to benefit small farmers and landless labour. Resources for this programme will come from plan outlays, institutional finance and counterpart funds generated from assistance under the World Food Programme. It is estimated that the project to be taken up with assistance from the World Food Programme will cover 2·7 lakh farmers who would supply milk to various projects besides 27,000 persons in connected activities such as handling, processing etc. in the urban and rural areas.

Area Development

6. The integrated development of the command areas of major irrigation projects is necessary for the co-ordinated and expeditious utilisation of the irrigation potential created in these projects The crux of the area planning envisaged in these cases is the adoption of a package app-

roach. The state governments would arrange for many of the components of such a package such as soil surveys, land levelling and shaping, adoption of proper irrigation practices, determination of drainage requirements, consolidation of holdings, provision of various inputs, building up of research base, extension and educational programmes etc. The central government will concentrate attention on the provision of funds for the strengthening of infrastructure facilities in rural communications and marketing complexes. The intention is that the entire command area would be brought within the purview of the Regulated Markets Statute. For ten of the command areas already under consideration, a sum of Rs 15 crores would be required; for four others yet under consideration, the financial requirements may be smaller. The details are being worked out with reference to the requirements of each project; but about two-thirds of the total sum may be spent on all-weather roads and the remainder on improving the existing marketing centres and the construction of new marketing centres. An employment potential of the order of 37,200 man-years is expected to be generated in this programme.

Rural works programme

7. A substantial provision of Rs 100 crores will be made for rural works in the fourth Plan period apart from Rs 135 crores provided for the small farmers and dry farming programmes. The emphasis in the new rural works programme would be on the construction of civil works of a permanent nature as would contribute to the mitigation, if not the total eradication, of the scarcity conditions in the areas concerned. During the period of construction, they would contribute to the direct employment of the persons of the locality; one of the safeguards to be taken would be to ensure that they do not result in the influx of labour from elsewhere into these areas, thus, in a sense, aggravating the existing situation. It is proposed to discuss with the state governments the details of the exact areas to be delimited in the districts concerned and also identify the appropriate works which should be included in this programme. Hence, it is not possible to precisely quantify the employment potential at this stage: however, for every rupee one crore of expenditure under the programme, employment is expected to be provided in the relevant working season of the year for about 25,000 to 30,000 persons.

Small industries

8. The State Bank of India and the other commerical banks are taking increasing interest in the provision of credit to the small-scale industries. Of this, special mention might be made of the scheme initiated by the State Bank of India for the technician entrepreneurs. Between June and December 1969, the loans sanctioned under this scheme has doubled, to a figure of Rs. 2·31 crores. Recently, the risk cover extended by the Reserve Bank of India under the Credit Guarantee Scheme for the small-scale industries has been increased from 66 to 75% of the amount defaulted. Urban co-operative banks have also been approved now for financing small-scale industries and qualify for re-finance on that account. A special scheme has also been taken in hand for imparting training to engineer entrepreneurs with a view to helping them to starting suitable small-scale industries; the curriculum of such training includes management policies and practice, advice on the agencies responsible for helping small-scale industries, knowledge of specific techniques, both technical and managerial, for the products of their choice in the actual working of the units, preparation of feasibility study reports, etc. This scheme is in addition to the schemes already current for giving training to those who have already established industrial units. The small-scale industries in the country are expected to come in for an extensive modernisation programme in the coming years. This,opens a new avenue for the design and development acumen of our high level technicians. In a sense, this will be a part of the indigenisation of consultancy engineering expertise, which government desire to develop more and more in the future.

Some opportunities arising from agricultural growth.

9. It would be appropriate to refer to the varied opportunities for employment for the educated unemployed arising from the sustained growth in the agricultural sector now in sight. Firstly, the increase in agricultural incomes offers an excellent opportunity to develop marketing on the right lines for agricultural inputs as well as consumer goods. Secondly, with the increase in demand for tractors and other farm machinery and equipment, there will be a growing need for the establishment of customs service centres for their repair and maintenance and this can provide a very useful avenue for self-employed entrepreneurs. Thirdly the large investments in rural electrification have resulted in a significant demand for personnel trained in jobs like line work, servicing, maintenance and internal wiring. Yet another area that can be mentioned is the maintenance and repair of domestic radio receivers, the consumption of which in rural areas has greatly increased in recent years.

Some recent trends

10. Employment trends in the organised sector indicate an increase of 1·9 per cent in total employment in 1968-69. Employment in the private sector which had fallen off in the previous two years has registered an increase of 1·3 per cent in 1968-69. Employment in the public sector had increased by 2·7 per cent in 1966-67 and 1·7 per cent in 1967-68. In 1968-69 the increase was 2·3 per cent. The increase was reflected in all major fields of public investment such as manufacturing, construction and electricity generation and distribution. Data on employment trends in the current year are not complete but due to the revival in manufacturing industries, both large and small-scale, and the increased construction activity, private sector employment will be higher than in 1968-69. The increase in public investment during 1969-70, the large rural electrification programmes that have been taken up and the general buoyancy in the economy should mean greater employment in manufacturing industries, electricity and transport and communications in the public sector.

Improvements to Employment statistics

11. An essential part of the efforts to tackle the problems of unemployment and underemployment is to devise meaningful concepts for the measurement of employment opportunities created by the Plan outlays[8], and to create and maintain appropriate and adequate data for the pur

pose. An Expert Committee appointed by the Planning Commission has examined this question in detail and have recommended improvements to be carried out to the collection, compilation and analysis of employment statistics in the main data sources such as the population censuses, the National Sample Survey, the Employment Market Information and the Employment Exchange data. The Committee has also drawn attention to the fact that in the nature of our socio-economic situation, precise estimates of unemployment and under-employment are not possible. The concept of labour force adopted in developed economies is not suitable for an economy like ours with its preponderance of self-employment and production within the household enterprise. In an economy like ours there would be considerable seasonable unemployment and/or under-employment. The character of the Indian economy and consequently that of the labour force is such that the concepts of employment and unemployment are too heterogeneous to justify aggregation into single-dimensional magnitudes. The Committee has, therefore, recommended that studies should be undertaken to get information on the different segments of labour force, taking into account such important characteristics as region, sex, age, rural-urban residence, educational attainments etc. and identify the demand likely to be generated for particular categories of labour as a result of the development envisaged under the Plan. The Committee is of the view that the problem of unemployment is most serious for workers who seek wage-employment and, as such, special care should be taken to collect information regarding them in greater depth and at shorter intervals. These recommendations are being examined by the government for implementation.

Long-term aspects

12. In the longer-term, growth in employment opportunities on a sustained and self-sustaining basis can be postulated only on the basis of an increasing tempo to economic activity in rural and urban areas both in agriculture and industry. It is the central purpose of planned development to bring this about. Concurrently, it is also necessary to continuously co-ordinate man power needs and employment opportunities with the output of the educational system and the technical training facilities. It will have to be the effort of governments at the centre and in the states to reorient the educational pattern towards meeting local employment opportunities arising in the future in different areas. Existing vocational guidance and career advisory services, in school and universities, are being strengthened and area skill surveys are being taken up with this end in view.

NUTRITION PROGRAMMES FOR CHILDREN

Introduction

Malnutrition and under-nutrition constitute serious hazards to the growth and development of children in our country, particularly infants and pre-school age children. Recent surveys indicate that nearly two thirds of expectant mothers and pre-school age children belonging to the poor sections of the community residing in backward areas suffer from serious malnutrition. Along with the unsatisfactory conditions of hygiene, environmental sanitation and control of communicable diseases, malnutrition and undernutrition rank as major secondary causes of the high mortality and morbidity which still continue to prevail among children. The Government of India have, therefore, decided to give high priority to the problem of nutrition among children in the fourth Plan. This is considered as basic to the programme of welfare for children.

2. Infants and pre-school children are, from the point of view of nutritional deficiencies, the most vulnerable segments of our population. During this period in an individual's life, the foundations of health for the adult age are laid and, therefore, any serious damage sustained during this period quite often produces irrevocable effects. Unfortunately, malnutrition is widely prevalent among the vulnerable sections of the population in the country, specially among the age group of 1—5 years. The mortality and morbidity rates among this section are exceedingly high. Mortality in this age group is 40 per cent of total mortality in the country as against 6 to 8 per cent in developed countries.

3. Besides the problem of under-nutrition among children belonging to the lower socio-economic groups of families, the problem of mal-

nutrition manifests itself in the form of protein-calorie malnutrition, anaemia and Vitamin A deficiencies. Recent surveys carried out in different parts of the country under the auspices of the Indian Council of Medical Research and the State Nutrition Divisions indicate that out of about 100 million children in the age group of 1—5 years, about 50 per cent suffer from protein-calorie malnutrition in one form or other. Blindness caused by Vitamin 'A' deficiency is also common in the southern and eastern parts of the country. The social cost of such malnutrition is heavy because the state has to incur large expenditures for the rehabilitation of these handicapped children in later life. It is therefore necessary to have a supplementary feeding programme for pre-school children, especially those belonging to the vulnerable sections of the population.

The Fourth Plan

4. The fourth Plan provides for an integrated nutrition programme. Where so many are under-nourished, more food is the first step towards better nutrition. The nation-wide endeavour to develop agriculture along with animal husbandry and fisheries should be regarded as the base of all effort in nutrition. While this is so, the important problem remains of widespread malnutrition among certain vulnerable categories of the population, specially children in the pre-school ages and among school children. This problem needs to be specifically tackled.

5. The fourth Plan includes the following schemes under different ministries/departments, for promoting nutrition among children.

Programme	Outlay (Rs. crores)	Beneficiaries (in lakhs)
1	2	3
(*i*) Nutrition programme for pre-school children (Department of Social Welfare)	6·00	21·5
(*ii*) School Feeding Programmes (Ministry of Education & Youth Services)	19·18	150
(*iii*) (*a*) Prophylaxis against nutritional anaemia in mothers and children	4·05	40
(*b*) Control of blindness in children caused by Vitamin A deficiency .. .. .. (Department of Health & Family Planning)	1·02	160
(*iv*) (*a*) Applied Nutrition	10·00	(To cover 450 C.D. blocks)
(*b*) Composite programme for women and children .. .. (Department of Community Development)	6·00	(To cover 1200 C.D. blocks)
(*v*) (*a*) Production of Balahar and low-cost protein food	6·70	(2·5 to 3 lakh tonnes)
(*b*) Production of weaning food	0·20	
(*c*) Pilot plan for protein isolate and protein isolate toned milk (Department of Food)	0·40	
Total	53·55	

1970-71 Budget

6. The year 1970-71 will mark an important beginning in providing nutritional services to pre-school children belonging to the vulnerable groups of families in the country. In addition to the fourth five-year Plan programmes for nutrition, a special programme of nutrition to cover 20 lakh children in the age group 0—3 years in tribal blocks and in slum areas of cities will be initiated in the 1970-71 budget.

The Special Programme

7. It has been decided to introduce a special programme to cover 10 lakh children in tribal areas and 10 lakh children in the slum areas of metropolitan cities. There are 489 tribal development blocks in the country, besides a number of concentrated pockets of tribal population in very backward rural areas. The Maternity Child Health Centres and Family Planning Welfare Centres situated in these areas will be made use of for supplying the nutrition to children. Similarly ten lakh children in the age group 0 to 3, residing in the slum areas of metropolitan cities, who are in most urgent need of supplementary nutrition to ensure normal growth and development, will be supplied with nutritive food.

8. As children in the age 0—3 years require different types of food as well as different levels of nutrition, it is proposed to provide the following by way of supplement to the food they get in their homes :

For children between 0 to1 year.	Twelve or of skimmed milk powder reconstituted, providing 120 calories and 12 grams of protein per day for 250 days in a year.
For children between 1 to 2 years.	One unit of skimmed milk powder reconstituted, plus one unit of processed or prepared food, giving 300 calories and 12 grams of protein per day, for 250 days a year.
For children between 2 to 3 years.	One unit of processed or prepared food giving 300 calories and 13 grams of protein per day, for 250 days in a year.

9. It is estimated that one unit of nutritious food given in different forms per child per day would cost Rs. 40 per year (of 250 days) per child including administrative and transport costs. It would require Rs 3

crores to cover 10 lakh children in tribal areas and another Rs 4 crores to cover 10 lakhs in urban slums. As it will take some time for the expenditures to come up to this level in 1970-71 an initial provision of Rs 4 crores has been included in the budget.

Nutrition programmes for Children in the age group 3 to 5 years through Balwadis

10. The programme of nutrition for children in the age group 3 to 5 years, which has already been included in the fourth Plan, is being initiated during 1970-71 with the help of existing Balwadis run by voluntary organisations as well as by Tribal Welfare and Harijan Welfare Departments in different states. The nutritional contents of the programme would provide 300 calories and 15 grams of protein per day per child for 250 days in a year. On an average the contents of food would have two ounces of cereals and one ounce of pulses costing 15 paise per day per child. Supervision costs will amount to 1 paisa per child per day. Wherever local food is available, efforts will be made to encourage local voluntary organisations to look after the preparation and supply of food to children. In areas where local food is not easily available, it is proposed to supply processed food in the form of Balahari; the raw material for preparation of Balahar is likely to be supplied free of charge by CARE with the cost of preparation and administrative charges being met from the budget.

11. It has been decided to provide Rs 20 lakhs for this programme in 1970-71 by way of a beginning. This provision will benefit about 68,600 children in the age group 3 to 5. The existing Balwadis in Family and Child Welfare projects and those run by voluntary social welfare organisations receiving grants from the Central Social Welfare Board and those promoted in tribal and backward areas by the State Directorates of Tribal Welfare and Harijan Welfare, will be made use of in supplying nutritional services to children.

School Feeding Programmes

12. The programme of mid-day school feeding programme to provide free meals to children in the elementary stage of education was initiated in 1962-63 as a centrally-sponsored programme by the Ministry of Education. The programme was initially started in five states, *viz.*, Andhra Pradesh, Kerala, Tamil Nadu, Punjab and Rajasthan. By now all states except Jammu & Kashmir and Nagaland are operating this programme. In the fourth Plan these programmes are being implemented in the state sector and central assistance to the states for the purpose is included in the plan assistance for developmental purposes. It is estimated that 98·7 lakh school children in the age group 5 to 11 years and 21·3 lakh children in the age group 3 to 5 years received the benefit of mid-day meals at primary schools during 1969-70. The state-wise distribution of children covered in this programme is furnished below for 1969-70.

(In lakhs)

State	School children	Pre-school children	Total
1. Tamil Nadu	16·00	1·00	17·00
2. Kerala	16·00	3·00	19·00
3. Andhra Pradesh	6·00	0·05	6·05
4. Mysore	8·00	4·00	12·00
5. Orissa	5·95	0·02	5·97
6. Madhya Pradesh	2·25	4·50	6·75
7. Uttar Pradesh	6·50	..	6·50
8. Rajasthan	3·50	0·50	4·00
9. Punjab	3·00	0·75	3·75
10. Gujarat	2·40	0·95	3·35
11. Bihar	5·00	..	5·00
12. Maharashtra	6·00	0·75	6·75
13. West Bengal	15·60	5·00	20·60
14. Haryana	2·50	0·75	3·25
TOTAL	98·70	21·27	119·97

The programme will be continued in the fourth Plan.

Nutrition Programme for children under the Ministry of Health, Family Planning and Urban Development

13. The programme of nutrition for children under the Ministry of Health, Family Planning and Urban Development covers three major schemes viz., (*a*) Skimmed milk feeding through Maternity and child Health centres, (*b*) Prophylaxis against nutritional anaemia and (*c*) Prophylaxis against blindness through Vitamin 'A' deficiency. The details of the services provided in these schemes are the following :

(*a*) Skim milk feeding programme through health agencies

In the last 15 years, UNICEF has been supplying skim milk powder for supplementary feeding programme of infants, children, pregnant and lactating mothers through health agencies. The states bear the expenses for transport and distribution. At the present time about 5,000 tonnes of skim milk powder are distributed annually to about 5 lakh beneficiaries, through primary health centres. CARE is s expected to continue this assistance with the withdrawal of UNICEF.

During the year 1970-71, 5 lakh children in the age group 0 to 3 years will continue to get the benefit of this service.

(*b*) Prophylaxis against Nutritional Anaemia for Mothers and Children.

The scheme seeks to provide preventive measures against nutritional anaemia in mothers and children by administering ferrous sulphate (iron) and folic acid through Maternity and Child Health and Family Planning centres.

During the year 1970-71 it is proposed to provide Rs 40 lakhs to cover 30 lakh children with this service.

(*c*) Prophylaxis against blindness in children caused by Vitamin 'A' deficiency.

A scheme for controlling blindness in children caused by Vitamin 'A' deficiency is being implemented by the Department of Family Planning, Ministry of Health during the fourth five-year Plan. During 1969-70, 16 lakh children are proposed to be covered by this scheme. Vitamin 'A' capsules of high dosage would be administered to the children through MCH and FP. Centres. The Plan outlay for the scheme is Rs 40 lakhs.

During 1970-71 Rs 8 lakhs will be provided to cover 16 lakh children with concentrated doses of Vitamin 'A' in the form of capsules.

Programmes for the production of Nutritive Food under the Department of Food.

14. *Balahar* (*a*) In the Balahar programme the wheat required for to

manufacture of Balahar is supplied by CARE while the cost of edible groundnut flour and an equivalent quantity of milo or other foodgrains is met by USAID. The Government of India incur the expenditure processing the raw materials and the cost of vitamins and minerals and flavouring agents.

The fourth Plan includes a provision of Rs 6·7 crores to produce 2·5 to 3 lakh tonnes of Balahar to benefit 17 million children. The 1970-71 budget includes a provision of Rs 50 lakhs for this programme.

Weaning Food

(*b*) The weaning food is comparable to Balahar in nutritional qualities but has the advantage that it is pre-cooked and has a long storage life. It will fill the need for low cost protein rich food for commercial marketing. One unit has been developed in collaboration with Kaira District Milk Producers Co-operative Union, Anand with the assistance of UNICEF and USAID for the production of nutritious low cost pre-cooked weaning food utilising largely vegetable protein foods. The production of this food has started recently on a pilot scale and the marketability of this product has been assessed and it is found that it has great potentiality.

Protein Isolated Toned Milk

(*c*) The object of this project is to encourage the use of oilseed protein isolate in toning milk thereby significantly stretching the country's milk supply and lowering the cost of milk to the consumer. The Department of Food have already taken up two pilot projects at Bangalore and Madras Dairies with the co-operation of CFTRI, Mysore, respective state governments and the United Nations Children Fund. The two units are producing 1000 litres of vegetable toned milk per day which are mainly used in the school feeding programme.

Conclusion

15. To sum up, the Nutritition Programme for children, under different heads, will have the following coverage in 1970-71 :—

1. Special programme of nutrition under Department of Social Welfare.	Rs 400 lakhs	20 lakh children in the age 0 to 3 years.
2. Nutrition programme for pre-school children under Department of Social Welfare.	Rs 20 lakhs	68,600, children in the age of 3 to 5 years.
3. School feeding under the Ministry of Education.	Rs 297 lakhs	21,27,000 children in the age of 4 to 5 years.
4. Skim Milk Feeding Programme under the Department of Food.		5 lakh children in the age of 0 to 3 years.
5. Prophylaxis under nutritional anaemia under the Ministry of Health.	Rs 40 lakhs	30 lakh children
6. Prophylaxis against blindness caused by Vitamin A deficiency in children under the Ministry of Health.	Rs 8 lakhs	16 lakh children

16. The nutritition programme will thus cover 20 lakh children in the age group 0 to 3 years. 21·94 lakh children in the age group to 3 to 5 years and 98·7 lakh children in the age group 6 to 12 years, during 1970-71. This will provide a sound foundation, covering a sizable population of children, on which an extensive programme of nutrition could be built up in the remaining years of the fourth Plan.

HOUSING AND URBAN DEVELOPMENT

Introduction

The pace of population growth and of urbanisation in India is brought out by current forecasts which indicate that the urban population which was 80 million in 1961 is likely to grow to 112 million in 1971 and to 152 million by 1981. The number of towns in the population range of 50,000 to one lakh is likely to increase from 138 in 1961 to 355 in 1981. In 1961 there were 100 towns with populations of one to five lakhs and their number is likely to go up to 133 by 1981. Towns in the population range of five to ten lakhs which were only 6 in 1961 are expected to increase to 37 in 1981. Cities with a population of 10 to 50 lakhs will increase from 7 to 8 and two more cities *viz.*, Bombay and Delhi will cross the fifty lakh size.

2. In this context, the central and state governments will have to give serious consideration to the development of unbuilt land in and around large cities to promote housing and for setting up of new townships on an adequate scale in order to contain and eliminate the problems of slums, congestion and squalor. Governments will also have to develop towns and cities which have the requisite economic and industrial base on a dispersed basis so as to attract the outflow of rural population and to prevent them from drifting towards already congested metropolitan areas. Some of the rural areas, which have attained a degree of prosperity as a result of the intensive agricultural development programmes, would also need to be urbanised in a planned manner.

Urban Housing

3. In India, as in other developing countries, the claims of urban housing on public funds have to compete with other high priority claims for the limited resources available for various public outlays. Private savings are also low and given the inequalities in income distribution, housing for the lower income groups is particularly unsatisfactory. What is necessary, in this context, is to devise a system of institutional finance in which public investment will act as seed-capital for attracitng private savings and enable a continuous roll-over of funds so that over a period of time, investments equal several times the initial capital. There should also be provision for undertaking investments on slum clearance and re-building which yield a social rather than a strictly economic return.

4. With these objectives, and in the light of the recommendations of the Housing Minister's Conference, government have decided to esta-

blish a Housing and Urban Development Finance Corporation. The fourth Plan includes a provision of Rs 10 crores for share capital participation by the government in the corporation and an amount of Rs 2 crores has been included in the budget for 1970-71 for government's equity contribution. Public financing institutions will also be able to assist the corporation with loan financing and it is estimated that the corporation may be able to raise funds of the order of Rs 200 crores from various sources in the fourth Plan period for this purpose. In addition, the LIC is expected to provide Rs 70 crores for low and middle income housing and for land acquisition and development during the fourth Plan period. State governments are also expected to provide in their budgets an amount at least equal to the allocations made by the LIC.

5. State governments have been informed of the lines on which projects are to be formulated to be eligible for assistance from the new corporation. Emphasis will be placed on the aquisition and development of urbanisable land in the major urban centres and to its sale and utilisation for large-scale housing to meet the needs of the lower-income groups. The returns from these projects will be reinvested in part on social investments such as rehabilitation of slums and in part on further programmes which will ensure continual increments to the initial seed-capital and progressively increased building activity. The process is illustrated by what has been done in Delhi where a revolving fund of Rs 5 crores has resulted in a turn-over of Rs 45 crores in a period of 8 years.

6. Since construction activity is labour-intensive, the activities of the corporation will also result in a significant contribution to employment opportunities. It has been estimated that an investment of Rs 1 crore in housing creates employment for 5·4 lakh man-days. Opportunities to absorb engineers of different disciplines will also be created. The building materials industry will also receive a boost.

Urban Development

7. As is well known, migration of population from the rural to the urban areas in search of employment has progressively worsened the urban scene. An attempt to create employment potential around growth centres identified after proper surveys and analysis could contain this problem to a large extent. Towards this end, certain regional planning bodies have made specific recommendations for the establishment of new towns. One example of such a trend is the proposal to develop a Twin-City or 'The New Metro Centre' around Panvel Creek in Bombay encompassing the Uran-Nhava-Sheva belt extending over nearly 50,000 acres, thus integrating Trans Thana Development and the Uran-Nhava-Sheva Port. This would provide an optimum location for an effective counter-magnet to Bombay. A detailed development plan of a composite nature for absorbing the inflow of population and for directing industrial and commercial growth in an orderly manner is proposed to be attempted in this new city.

Another example is the proposed development of the Calcutta Metropolitan Region on somewhat similar lines. The fourth Plan envisages a provision of Rs 40 crores for this purpose— water supply (11 crores), sewage and drainage (11 crores), transportation (17 crores), basti improvement (1 crore).

Likewise, plans have also been drawn up for the development of three important satellite townships around Madras at Chingleput, Tiruvellore and Gummidipundi, which will provide an adequate industrial and economic base to trap out-bound rural population and to reduce, in some measure, the concentration of population from the core of this metropolitan city. This programme envisages an investment of over Rs 5 crores.

The large-scale immigration into Delhi has been tackled to a large degree by the provision of amenities to the squatters in properly laidout colonies out of the land government had acquired for the planned development of Delhi. Government have been subsidising the development of plots and provision of amenities on the basis of Rs 600 to 1200 per family. To date, government have spent over Rs 9 crores for this purpose. Other community facilities like provision of drinking water, sanitation, medical and health facilities etc. are also provided. Improvement schemes in Delhi have also received over Rs 40 lakhs last year.

Rural Housing

8. The government are also keenly conscious of the need for improvement of rural housing conditions. But owing to the enormity of the prolem, it has become necessary to adopt a selective approach. The government is already operating a village housing projects scheme under which loans upto Rs 3,000 are advanced for house construction. This Scheme *inter alia* also envisages the provision of free house sites for landless agricultural workers. The problem relating to landless labour in rural areas is particularly acute and in the coming years, the state and central governments will have to give greater attention to this section of the rural population. The provision of free house-sites and, if possible, construction subsidy to these households would be a major objective to be progressively achieved on a planned basis.

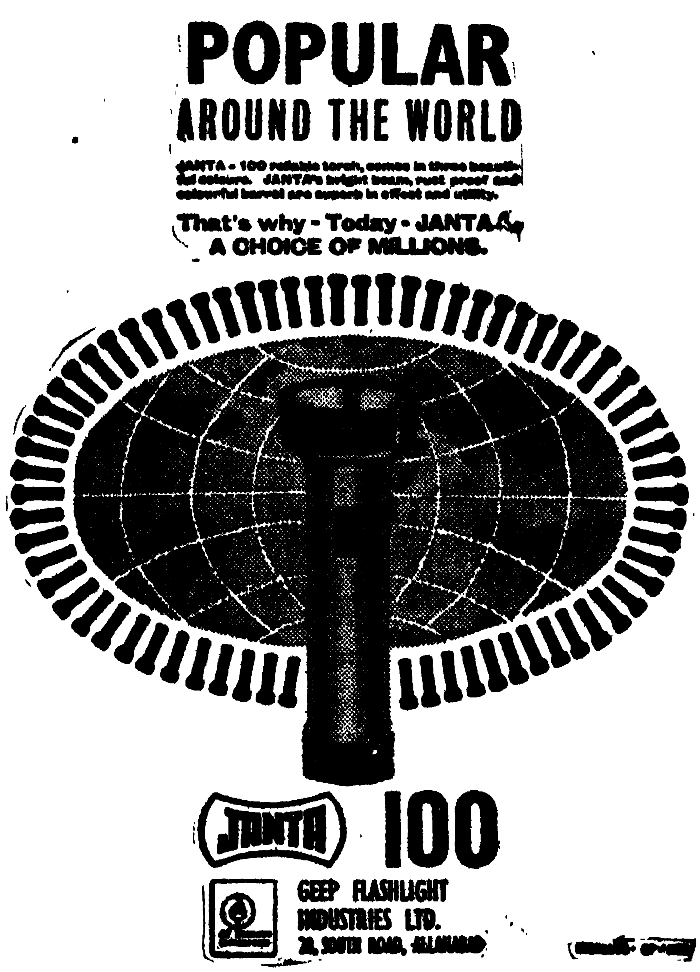
9. Plantation labour constitutes a distinct section of the rura population. In order to help the planters provide adequate housing for their workers, a Plantation Labour Housing Scheme has been in operation for some time. This was, initially, purely a loan scheme and subsequently an element of subsidy of 25 per cent was also provided besides a loan of 50 per cent. It has, now been decided to grant a subsidy of 37½ per cent in addition to a loan of 50 per cent of the cost of each house. For this purpose, an allocation of about Rs 2 crores is to be made in the fourth Plan, under the central sector, so that the state governments may provide the requisite assistance without encumbering their Plan resources. These provisions would help to improve the housing conditions of plantation workers to a significant extent.

RURAL WATER SUPPLY SCHEMES

Introduction

Our five-year plans have placed high priority on providing the essential amenity of hygienic drinking water supply to the rural areas. This was a neglected area prior to Independence and factors such as the very large number of villages, the existence of problem areas in terms of water availability and the terrain and organisational problems have had to be tackled in pushing ahead with this programme.

2. Four different programmes have been implemented since the first Plan for the development of rural water supply. Under the Community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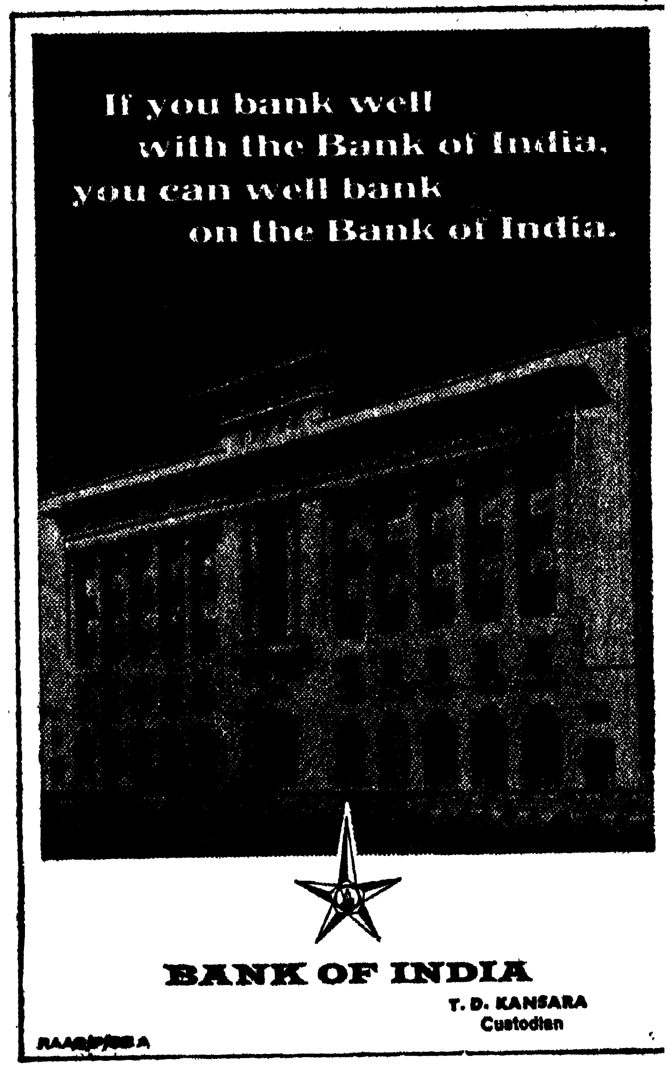
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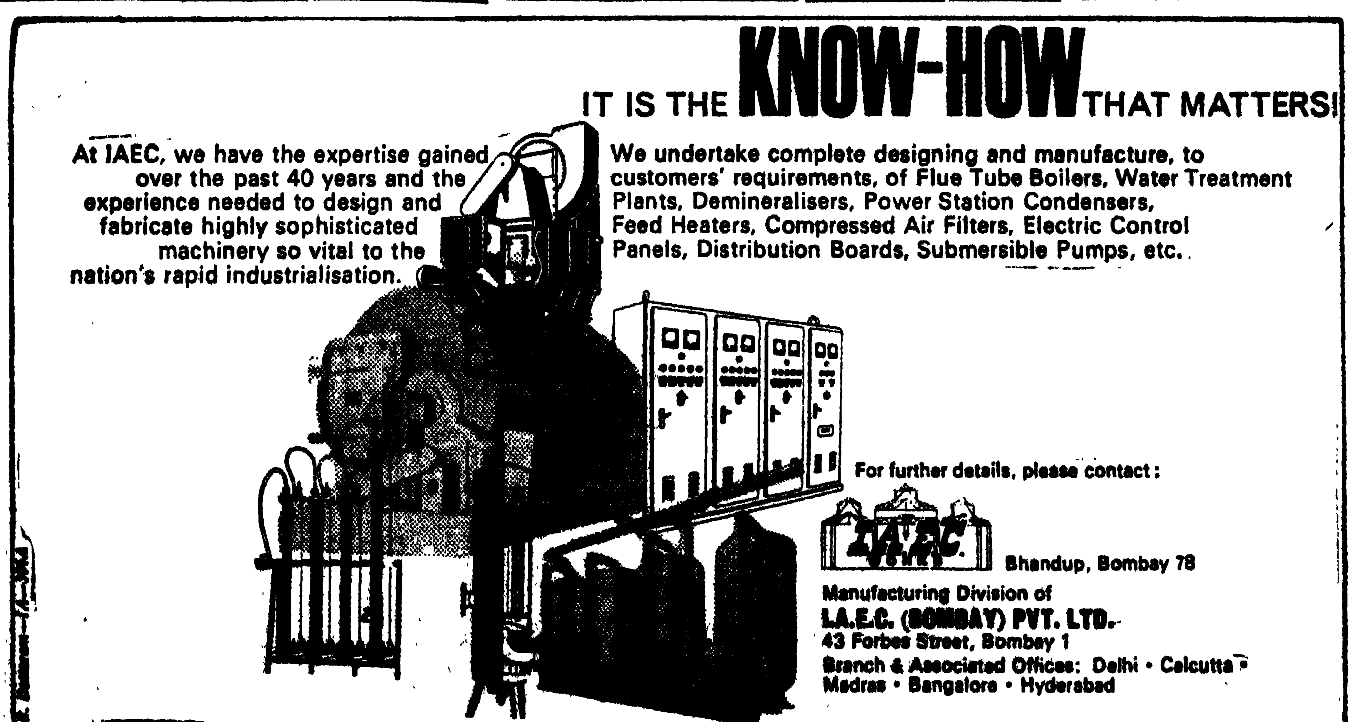
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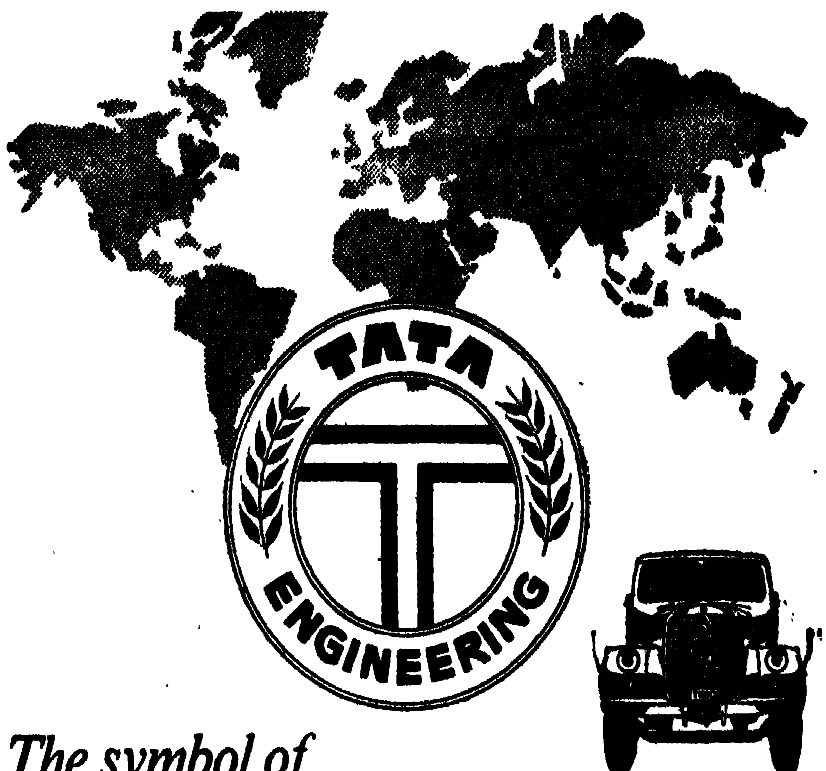
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Development Programme, simple wells are constructed by the block development agencies with a 50% grant and a 50% matching contribution from the local people. Under the Local Development Works programme, the assistance from government varied from 50 to 100%. Since 1964-65, the piped water supply schemes in this programme have been transferred to the union Health Ministry and the construction of simple wells to the Community Development blocks. The third programme is administered by the union Home Ministry for providing water supply for backward classes, scheduled castes and scheduled tribes. These programmes are on a full grant basis shared equally by the centre and the states. Fourthly, the National Water Supply and Sanitation Programme (NWSSP) under the union Health Ministry, is for providing piped water supply systems involving a measure of technical skill for their design and execution. Until the beginning of the fourth Plan, 50% of the cost was financed as a grant from the centre with the balance being borne by the states and the beneficiaries.

3. A total expenditure of about Rs 150 crores has been incurred by the central and state governments on these programmes upto 1968-69. About 17,500 villages have been covered by piped water supply systems under the NWSSP benefiting about 15 million people. Under the other programmes about 4·2 lakh new wells have been constructed, about 3 lakh new tube-wells with hand pumps erected and about 5·5 lakh old wells have been renovated.

The Fourth Plan

4. The emphasis in the fourth Plan is on providing water supply to the villages in the hilly, sandy and saline tracts which have suffered from hardship for long years. Emphasis will also be placed on cholera-endemic and guinea-worm infested areas. An amount of Rs 100 crores has been earmarked for rural water supply programmes in the state Plans to start with and it will not be open for the states to divert this provision to other sectors. Actually, many of the states may be able to profide additional resources and the allocations may eventually be of the order of Rs 150 crores. Thus, the fourth Plan allocations for rural water supply are likely to equal the amount spent in the previous 18 years.

5. 100 per cent financial assistance has also been provided by the centre for special investigation divisions in the states to appraise and draw up rural water supply schemes with special reference to the difficult and scarcity areas. These divisions have been set up in all the states. Based on the recommendations of the high level Drinking Water Board set up by the union Health Ministry, the investigation divisions are engaged in classifying the problem villages into the following categories :

(*i*) Difficult and scarcity areas
(*ii*) Specially backward areas
(*iii*) Areas where the existing unsafe and un-wholesome supplies have to be set right
(*iv*) Areas where existing supplies are inadequate and have to be improved.

6. The objective is that a continuous plan of operation with investigations, drawing up of schemes and construction being carefully dovetailed is put into effect to meet the problems of villages situated in hilly terrain, arid zones and saline tracts and villages susceptible to endemic cholera and guinea-worm. It is proposed to take up work in chronically drought-affected areas on a priority basis.

7. With the help of assistance provided by the UNICEF, ground water exploration using high speed drilling rigs and accessories will be taken up in a larger area. Training programmes conducted by the Central Public Health Engineering Organisation for water plant supervisors and for drillers and supervisory staff is yet another form of assistance provided to the states. The Central Public Health and Engineering Research Institute, Nagpur and the All India Institute of Public Health and Hygiene, Calcutta, have done useful research in evolving respectively cheaper methods of clarification and treatment of waters and in designing a sturdy reliable hand-pump. The indigenous production of pipes and other materials and equipment required for water supply schemes has also made significant progress.

Conclusion

8. Out of about 5·6 lakh villages in the country, nearly 70% constitute areas which have no terrain or other special problems in the matter of water supply. The progress made under the plans so far has resulted in providing drinking water to a very substantial part of this major segment in the country. In the fourth Plan, earnest efforts will be made for the remaining areas with special problems which are also incidentally relatively less densely populated. The implementation of these programmes will bring us significantly closer to the day when no village in India would go without the basic amenity of safe drinking water.

SOCIAL SECURITY BENEFITS FOR INDUSTRIAL WORKERS AND GOVERNMENT EMPLOYEES

Social Security benefits at present applicable to industrial employees range from benefits provided by the employer under the Workmen's Compensation Act, Central and State Maternity Benefits Act or the Plantations Labour Act, to the benefits available through public authorities under the Employee's State Insurance Act, 1948, the Employee's Provident Funds Act, 1952 and the Coal Mines Provident Fund and Bonus Scheme Act 1948. However, there is no worthwhile scheme for providing long-term protection to the families of industrial workers who may be rendered destitute by the death of the earning member.

2. The Employee's Provident Funds Act, 1952 covers about 5·4 million workers who are predominantly industrial workers. The coverage of the Act has been progressively extended from time to time and at present almost all workers in the organised sector of the industry have been brought under the Act. Contributions to provident fund are payable at the rate of 6¼ per cent of pay by both the employer and by the employee. The central government is empowered to raise the rate of contribution to 8 per cent in such of the industries as are considered to be in a position to bear the incidence of the higher rate and at present 4·1 million workers are governed by the higher rate of 8 per cent.

3. While this scheme provides effective old-age and survivorship benefits through the payment of a lump-sum of sizable amount, it

suffers from the disadvantage that where a member happens to die prematurely, the accumulations in the Fund would be too meagre to render adequate protection to his family. Financial security to the family of a member who happens to die prematurely can be ensured if a pension is paid for life to the widow and thereafter to the surviving minor children. Such a scheme would be preferable to a pure insurance scheme in which a lump-sum is paid on the death of the worker.

4. When a worker survives the age of retirement it would be difficult for administrative reasons to assure a family pension for his family. This is so because when death occurs— which may be several years after retirement—the employer would have lost all touch with him and the family would find it difficult to establish its claim for pension. For this reason a lump-sum payment at retirement would be a better provision. From another point of view also, such a payment recomends itself; the worker can profitably invest the amount (together with accumalations in his provident fund) in land or in a small industrial or other occupational venture ensuring him a steady income.

5. An even better arrangement would be to have a combination of both a family pension and a retirement benefit. In addition, to take care of the immediate needs of the family in case of the worker's death while in service, a small lump-sum payment (payable only in case of death while in service) can be provided for.

6. With these objectives in view, it is proposed to bring forward legislation to create a Family Pension-cum-Life Assurance Scheme, which will be applicable to those employees who contribute 8 per cent of their pay to their Provident Fund. A separate Fund for the scheme will be created by diverting a part of the employee's share (1-1/6 per cent of pay) and an equal amount from the employer's share from their respective current contributions to the EPF. The government will add a further share of 1-1/6 per cent of pay making up a total of 3½ per cent of pay for credit into this Fund under the new scheme. It has been estimated that with a Fund built-up on this basis, a family pension similar to the one applicable to government servants could be provided to the widow, and to the minor children surviving her, in the case of a worker who dies before retirement. The minimum pension will be Rs 40 per month and the actual quantum will vary according to pay going up to a maximum of Rs 150 per month. In addition a lump-sum payment of Rs 1000/- will be made in the event of death in service.

7. Out of 4·1 million workers who are governed by the higher rate of contribution of 8 per cent, it may be assumed that 75 per cent will opt for the scheme. On this basis, the central government will have to pay Rs 7·6 crores per year as its share of contributions (1-1/6 per cent of pay). In addition, the cost of administration of the scheme which cannot be met from the rates of contribution proposed to be collected or from the existing resources of the Employees Provident Fund would have to be met by the government. It is estimated that the establishment of the EPF. would have to incur additional cost to the extent of Rs 56 lakhs per year which will have to be met by government and further the administrative cost of disbursement of the family pensions, if made through Post Offices or banks is likely to amount ultimately to about Rs. 33 lakhs per year.

8. Since the scheme can be implemented only after it has been considered and agreed to at a tripartite forum and necessary legislation is enacted for the purpose, an *ad hoc* budget provision of Rs 15 lakhs towards administrative cost has been made. A similar *ad hoc* provision of Rs 2 crores on account of government share of contribution has also been made. A provision of Rs. 10 lakhs has been made towards interest to be credited to the Fund.

9. The new scheme will meet a felt need in the structure of our social security arrangements for industrial workers who constitute an important part of our national economic resources. It will benefit a large number of industrial employees by providing a very necessary measure of security to the families of those who die in harness. Supplementary details of the proposed scheme are outlined in the annexure.

Enhanced minimum pension for government employees

10. At present the minimum pension (inclusive of *ad hoc* increases) is Rs 25 per mensem for all persons who retired on or after 1st January 1964. This is also the present minimum for family pensions. Government have decided to raise this minimum from Rs 25 to Rs 40 per mensem (inclusive of *ad hoc* increases, where applicable). The enhanced minimum will benefit existing as well as future pensioners, civil and defence. It will be effective from 1st March 1970 i.e. in respect of pension/family pension for the month of March 1970 payable in April 1970. Pensioners who had retired prior to 1st January 1964 will also now get the benefit of minimum pension at the enhanced level of Rs 40 per mensem (inclusive of *ad hoc* and temporary increases, where admissible).

ANNEXURE

1. The Family Pension-cum-Life Assurance Scheme would be applicable to employees of all the establishments which are covered under the Employee's Provident Funds Act and in respect of whom contributions are payable at the rate of 8 per cent of pay. It would be compulsorily applicable to all future entrants with effect from the dates they beome members of a Provident Fund under the Employee's Provident Funds Act and have actually made their first contribution to the fund.

2. The family pension will be similar to the one applicable to government servants (except that it would be payable only in the event of the death of the worker while in service) with the following modifications:—

(*i*) "Pay" will be as defined in the Employees Provident Fund Scheme, 1952.

(*ii*) The minimum pension will be Rs 40/- per month.

3. Existing employees will have an option to come over to the scheme by a specified date and the option once exercised shall be final. While

full benefits would be available to those entering the scheme at the age of 25 years or below, others joining at a later age would be entitled to proportionately lower benefits (including minimum pensions) in accordance with a scale to be actuarially worked out and specified. The scheme will be applicable to members of un-exempted and exempted establishments alike as also to members who have opted individually or collectively out of the Employees' Provident Fund Scheme in favour of private Provident Funds of the establishments concerned. These benefits would be additionally available to the members of the exempted establishments (who may be already enjoying pension, family pension or life assurance benefits) in the following manner :—

(*a*) In the case of exempted establishments having provident funds, rates of contribution in respect of which are not less favourable than those prevalent in the Employee's Provident Fund Scheme, the additional benefits will be the same as for the members in the unexempted establishments.

(*b*) In the case of establishments having provident funds where the employer's contribution is made available by way partly of a provident fund contribution and partly pensionary and/or gratuity benefits, the establishments will be required to provide for family pension benefits, (if not already available) at scales not less favourable than those provided in the proposed family pension scheme. The statutory Fund will bear the cost of the insurance benefits.

4. In order to prevent the possibility of "adverse selection" against the fund by the entry of persons not in good health, a "waiting period" would be imposed which will be not less than two years. A person dying during that period will be entitled only to the return of his contributions with interest. In the case of an employee leaving service on resignation, retrenchment etc. payment of part benefit (which will correspond to the actuarial reserve value and would be somewhat less than the proportionate benefit) will be made, but only in those cases where contributions have been received for at least two years.

5. The collections comprising the contributions will be funded separately in a Family-Pension-*cum* Life. Assurance Fund and invested wholly with the central government who will guarantee a minimum interest of 5½ per cent per annum. This fund will be administered by the Central Board of Trustees of the Employees' Provident Fund. Family pensions will be disbursed through the branches of nationalised banks or through the post offices on payment of approriate rates of commission. The life assurance benefits will be disbrused by the Employee's Provident Fund Organisation.

Budget at a Glance

REVENUE BUDGET

(Rs. in crores)

Revenue Receipts

	Budget 1969-70	Revised 1969-70	Budget 1970-71
Tax Revenue	2714·15	2732·04	2966·97 +170·06†
Non-tax Revenue	799·74	855·11	899·75
TOTAL —REVENUE	3513·89	3587·15	3866·72 +170·06†
Less—State's Share	517·60	621·67	699·79 +45·30†
Net Centre's Revenue	2996·29	2965·48	3166·93 +124·76†

Revenue Disbursements

	Budget 1969-70	Revised 1969-70	Budget 1970-71
Civil Expenditure	1377·96	1405·04	1498·42
Defence Expenditure	985·78	979·32	1017·84
Grants-in-aid to States and Union Territories with Legislature	596·18	592·06	636·10
TOTAL	2959·93	2976·42	3152·18

	Budget 1969-70	Revised 1969-70	Budget 1970-71
Revenue Surplus(+) Deficit (—)	(+)36·36	(—)10·94	(+)14·75 (+)14·75 (+)124·76

CAPITAL BUDGET

Capital Receipts

	Budget 1969-70	Revised 1969-70	Budget 1970-71
Market Loan (Net)	106·00	141·31	161·70
External Aid (Net) (Other than P.L. 480)	467·40	400·46	399·75
P. L. 480 Aid*	215·11	205·93	132·27
Loan Repayments	745·00	880·00	825·00
Other receipts	196·37	347·81	304·99
TOTAL	1729·88	1975·51	1823·71

Capital Disbursements

	Budget 1969-70	Revised 1969-70	Budget 1970-71
Civil Expenditure	478·60	486·24	524·35
Defence Expenditure	124·22	125·42	136·67
Railway Capital Outlay	132·60	124·86	150·00
P & T Capital Outlay	34·16	35·96	35·00
Loans and Advances			
(*i*) States and Union Territories	793·74	1057·97	878·25
(*ii*) Others	456·60	424·23	467·19
TOTAL	2019·92	2254·68	2188·46

	Budget 1969-70	Revised 1969-70	Budget 1970-71
Deficit on Capital Account	290·04	279·17	364·75
OVERALL DEFICIT	253·68	290·11	350·00 (—)124·76†

*In addition P.L. 480 and other food aid on Revenue Account will be Rs. 33 crores in the Revised Estimate and Rs. 29 crores in Budget Estimate.

†Effect of Budget proposals.

REVENUE BUDGET

(In crores of rupees)

Receipts		1969-70 Budget	1969-70 Revised	1970-71 Budget
1. *Tax Revenue*				
Customs Duties	.. ..	435·20	410·00	445·00 +20·00†
Union Excise Duties	.. ..	1521·27	1525·06	1679·34 +135·06
Corporation Tax	.. ..	326·20	320·00	342·00
Taxes on Income	.. ..	362·30	400·00	423·00 +15·00†
Estate Duty	.. .. ..	7·50	7·50	7·50
Wealth Tax	.. ..	12·00	14·00	18·00
Other Taxes and Duties	.. ..	49·68	49·78	52·13
TOTAL	.. .. ..	2714·15	2732·04	2966·97 +170·06†
2. *Non- tax Revenue*				
Debt Services	.. .. ..	540·07	573·46	611·27
Currency and Mint	.. ..	94·93	94·84	98·07
Other non-tax Revenue*	..	164·74	186·81	190·41
TOTAL	.. .. ..	799·74	855·11	899·75
3. *Total Gross Revenue*	.. ..	3513·89	3587·15	3866·72 +170·06‡
4. *Less—States' Shares*				
Union Excise Duties	..	325·92	321·51	353·45 +35·30†
Taxes on Income	.. ..	184·57	293·18	339·17 +10. 00†
Estate Duty	.. .. ..	7·11	6·98	7·17
TOTAL	.. .. ..	517·60	621·67	699·79 +45·30†
5. *Net—Centre's Revenue*	..	2996·29	2965·48	3166·93 +124·76†

Disbursements		1969-70 Budget	1969-70 Revised	1970-71 Budget
1. *Civil Expenditure*				
Collection of Taxes and Duties		44·59	43·93	48·55
Debt Services	.. .. ..	568·82	568·56	597·48
Administrative Services	..	164·83	177·32	189·70
Social and Development Services		272·33	266·53	319·85
Multi-purpose River Schemes,etc.		4·39	5·89	14·56
Public Works, etc.	.. ..	37·93	38·68	42·63
Transport and Communications		17·33	18·35	20·80
Currency and Mint	.. ..	26·44	26·86	26·00
Miscellaneous	.. .. ..	226·69	242·37	221·26
Contributions and Miscellaneous Adjustments*	.. ..	8·73	10·70	10·77
Extraordinary Items	.. ..	5·89	5·85	6·64
TOTAL—Civil Expenditure	..	1377·97	1405·04	1498·24
2. *Defence Expenditure (Net)*	..	985·78	979·32	1017·84
3. Grants in aid to States and Union Territories with Legislature	..	596·18	592·06	636·10
TOTAL £	.. .. ..	2959·93	2976·42	3152·18
Surplus (+) Deficit (—) on Revenue Account		(+)36·36	(–)10·94	(+)14·75 (+)124·76†

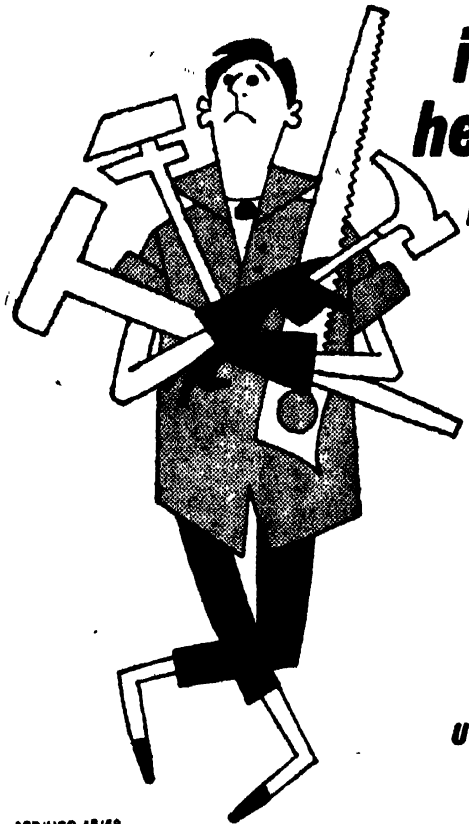
*Includes PL 480 grants food aid and amounting to Rs. 33 crores in RE 1969-70 and Rs. 29 crores in BE 1970-71.

†Effect of Budget proposals.

*Excludes grants-in-aid to States and Union Territories with Legislature shown separately.

£Includes a plan provision of Rs. 458·85 crores in Budget Estimates 1970-71 as against Rs. 390·40 crores in the Revised Estimates for 1969-70.

†Effect of Budget proposals.



CAPITAL BUDGET (In crores of rupees)

Receipts	1969-70 Budget	1969-70 Revised	1970-71 Budget
1. *Market Loan* :			
Gross Borrowings	500·00	535·31*	455·00
Less—Repayments	394·00	394·00	293·30
Net Borrowing	106·00	141·31	161·70
2. *External Aid* (*Other than P.L.* 480)			
Gross Borrowings	675·00	580·00	600·00
Less—Repayments	207·60	179·54	200·25
Net Borrowing	467·40	400·46	399·75
3. *P. L.* 480 *Aid* :			
Dollar Credit	115·00	74·10	84·00
Rupee Loans ..	60·00	60·00	35·00
P.L. 480 Deposits (net) ..	40·11	71·83	13·27
TOTAL	215·11	205·93	132·27
4. Repayment of loans and advances	745·00	880·00	825·00
5. *Other Items* :			
(*i*) Small Savings	135·25	125·25	140·20
(*ii*) Other Receipts	61·12	222·56	164·79
TOTAL CAPITAL RECEIPTS ..	1729·88	1975·51	1823·71

*Excludes Rs. 75 crores of ad hoc treasury bills converted into dated securities.

Disbursements	1969-70 Budget	1969-70 Revised	1970-71 Budget
A. CIVIL EXPENDITURE :			
1. Social and Development Services	340·86	347·76	348·87
2. Multi-purpose River Schemes etc.	58·25	60·13	71·25
3. Public Works etc. ..	75·89	58·94	92·64
4. Transport and Communications	25·55	24·09	28·71
5. Currency and Mint	6·28	8·13	12·03
6. Miscellaneous	—28·23	—12·81	—29·15
TOTAL—CIVIL EXPENDITURE	478·60	486·24	524·35
B. Posts and Telegraphs	34·16	35·96	35·00
C. Railway Capital Outlay ..	132·60	124·86	150·00
D. Defence Capital Outlay ..	124·22	125·42	133·67
E. Loans and Advances— ..			
1. States and Union Territories	793·74	1087·97	878·25
2. Others	456·60	424·23	467·79
TOTAL—LOANS AND ADVANCES	1250·34	1482·20	1345·44
TOTAL—CAPITAL DISBURSEMENTS	2019·92	2254·68	2188·46
Deficit on Capital Account ..	290·04	279·17	364·75
Overall Deficit	253·68	290·11	350·00 (—)124·76†

†Effect of Budget Proposal.

NOTES ON ESTIMATES

REVISED ESTIMATES—1969-70.

REVENUE BUDGET

The current year's Budget estimated a revenue surplus of Rs 36 crores after taking into account the effect of the Finance Act, 1969. This is now expected to be converted into a revenue deficit of Rs 11 crores, being the result of a shortfall in the net revenue receipts of Rs 31 crores and an increase of Rs. 16 crores under revenue disbursements.

Revenue Receipts :

The total gross revenue for the current year is estimated at Rs 3,587 crores as against the budget estimate of Rs. 3,514 crores.

Total customs revenue from all duties is placed at Rs 415 crores as against the earlier estimate of Rs. 435 crores. Import duties which were expected to yield Rs 357 crores are now estimated to amount to Rs 340 crores. This is mainly due to lesser imports of machinery, motor vehicle parts, metals other than iron and steel and "all other articles" than originally contemplated. The export duties which were estimated to yield Rs. 74 crores are likely to amount to Rs. 70 crores. The decrease is mainly under Tea and De-oiled Ground-nut meal.

The Revenue from Union Excise Duties which was estimated at Rs. 1521 crores earlier, after taking into account the effect of the Finance Act, 1969, is expected to go up slightly i.e. by Rs. 5 crores to Rs. 1526 crores. This is mainly due to improvement under Rayon and Synthetic fibre and yarn, Tyres and Tubes, Cement and Sugar, offset to some extent by shortfall under Cotton fabrics and Textiles, Iron and Steel products and Cigars and Cigarettes.

Corporation Tax and Income-tax together are expected to yield Rs. 720 crores as against the earlier estimate of Rs. 669 crores which also took into account the effect of the Finance Act, 1969. The improvement is due partly to the changed system of payment of advance tax introduced in the current year and partly due to the tightening up of the collection machinery.

Interest receipts are expected to be more than the Budget Estimate of Rs. 540 crores by Rs. 33 crores. This comprises Rs. 15 crores under interest payment by States and Rs. 18 crores from Public SectorUndertakings, (including Railways and Posts and Telegraphs) due mainly to receipt of one advance instalment of interest due from Hindustan Steel.

The rest of the increase is spread over a number of items, notably food aid from certain countries other than U.S.A. (Rs 28 crores), cash grant in lieu of interest payment from Federal Republic of Germany (Rs 4 crores), Wealth Tax (Rs 2 crores), receipts from Electricity Schemes (Rs. 1·50 crores), Opium (Rs 1·75 crores) and dividends from Public Understakings (Rs 1·3 crores). Less grants from U.S.A. under PL 480 (Rs. 18 crores) would offset the above increases to some extent.

The states' share of Union Excise Duties this year will be Rs 322 crores against the earlier estimate of Rs 326 crores the decrease being due to the adjustments made in respect of the earlier year.

The state's share of Income-tax will now be Rs 293 crores as against Rs. 185 crores estimated earlier. The increase of Rs 108 crores is due partly to the increase in the estimated gross collections and partly to the new procedure of including the advance tax collections in the divisible pool in the financial year in which the collections are made instead of on the completion of regular assessment as has been the practice till now.

A portion of the increase (Rs 36 crores) is also due to the payment of arrears in respect of the earlier years.

The states' share of Estate Duty will be marginally less (by Rs 13 lakhs) due to the adjustment made in respect of the previous year.

The revenue receipts, net of states' share, would thus stand at Rs 2,965 crores as against the earlier estimate of Rs. 2996 crores showing a shortfall of Rs. 31 crores.

Revenue Disbursements :

Disbursements met from Revenue are now estimated at Rs 2,976 crores as against Rs. 2,960 crores in the Budget Estimates. Thus showing an increase of Rs 16 crores.

Defence expenditure (net) on revenue account is estimated at Rs 979 crores as against Rs. 985 crores at the Budget stage. The improvement of Rs. 6 crores is mainly due to larger receipts and recoveries.

Administrative services account for an increase of Rs. 12 crores mainly under Police.

Reimbursement of consumer subsidy in respect of indigenous and imported foodgrains handled by the Food Corporation accounts for an increase of Rs. 12 crores.

Social and Developmental Services show a saving of Rs. 6 crores. This is mainly due to lesser expenditure on Scientific Departments and Agriculture.

Grants to states and union territories show an overall reduction of Rs. 4 crores mainly due to lesser provision for Statutory Grants to states on the basis of the final report of the Fifth Finance Commission (Rs. 24 crores) as well as lesser provision (Rs 7 crores) for central Plan and centrally sponsored Plan schemes, off set by increases on account of grants for state Plans (Rs 9 crores), grants for non-Plan purposes (Rs. 13 crores, of which Rs 10 crores is towards relief of distress caused by natural calamities), revenue gap grants to union territories (Rs. 5 crores).

CAPITAL BUDGET

Capital Receipts

Net receipts from market loans (excluding conversion of *ad hoc* Treasury Bills of Rs 75 crores into dated securities) are now placed at Rs. 141 crores showing an increase of Rs 35 crores over the current Budget.

Net Budgetary receipts from external assistance excluding PL 480 and other food aid are placed at Rs 400 crores in the revised against Rs. 467 crores, thus showing a shortfall of Rs 67 crores.

PL 480 Aid (excluding portion adjusted as grants taken into account in the revenue section but including PL 480 Convertible Currency Credit) is placed at Rs. 206 crores as against Rs 215 crores in the Budget. In addition PL 480 aid as also other food aid adjusted in revenue section will be Rs 33 crores.

In the current Budget, loan repayments by state and union territory governments were placed at Rs. 540 crores and by other parties at Rs 205 crores, totalling Rs. 745 crores. The repayments are now placed at Rs. 880 crores — Rs 640 crores from State and union territory governments and Rs. 240 crores from other parties. The increase is mainly due to sanctioning of larger short-term loans to state governments as also anticipated larger recovery of overdues of previous years from them and advance repayment of Million Tonne Stage and Expansion Stage loans by the Hindustan Steel Limited.

Collections under Small Savings (Net) are now placed at Rs. 125 crores against Rs. 135 crores assumed at budget stage.

The Revised for 'Other receipts' includes a credit of Rs 5 crores on

account of Compensation Bonds in respect of nationalised banks for which provision has been included on the disbursements side.

Capital Disbursements

The current budget provided for civil expenditure of Rs 479 crores against which the revised is placed at Rs 486 crores due mainly to provision for compensation payments in respect of nationalised banks (Rs 14 25 crores).

Investments in government companies and corporations are less by Rs 4·46 crores. The main savings are in respect of Bokaro (Rs 10 crores), Hindustan Copper (Rs 7 crores), partially offset by increase in provision for Food Corporation due to godowns transferred from Food Department.

Outlay on nuclear power Stations is more by Rs 5 crores mainly due to accelerated tempo of work on Rajasthan Atomic Power Project and spillover payments of Tarapur Atomic Power Station offset to some extent by lesser expenditure on Kalpakkam Power project due to delay in procurement of machinery and equipment, etc.

Public Works show a shortfall of Rs 17 crores mainly due to lesser outlay on roads and larger recoveries than estimated on godowns transferred to the Food Corporation of India.

State trading schemes in respect of foodgrains show a net increase of Rs 23 crores due to notional adjustments made in respect of larger gift consignments of food expected during the current year as well as those outstanding in respect of such consignments received in 1968-69. Provision for Railway capital outlay is less by Rs. 8 crores.

The current budget included a provision of Rs767 crores for giving loans and advances to state governments. The revised requirement is placed at Rs 1032 crores mainly on account of provision of Rs 275 crores made for providing special assistance to certain states for covering their gaps in resources.

Provision for loans and advances to union territories is Rs 26 crores as against Rs. 27 crores in the original Budget.

The provision for loans to government companies and corporations is placed at Rs. 219 crores as against the current budget of Rs 253 crores. The saving of Rs 34 crores in the revised is mainly due to the fact that the Industrial Development Bank and the Industrial Finance Corporation would not require loan assistance provided for them in the budget *viz.*, Rs. 12 crores and Rs 5 crores respectively as also lesser requirements of some industrial and commercial undertakings notably Fertilizer Corporation of India and the Indian Oil Corporation.

The revised requirement for loans to foreign governments, port trusts, Railway and P & T. funds and other parties is placed at Rs. 205 crores as against Rs. 203 crores in the budget. This is the net result of increases under Railway and P & T Funds offset by reduction under provision for loans to foreign governments.

OVERALL POSITION

The current year's budgetary operations are expected to show an overall deficit of Rs. 290 crores as a result of the variations mentioned above.

BUDGET ESTIMATES 1970-71

Revenue Budget

The Revenue Budget, at existing rates of taxation, shows a surplus of Rs. 15 crores as against a deficit of Rs. 11 crores in the current year. The improvement of Rs. 26 crores is the result of an increase of Rs. 202 crores in the net Revenue Receipts and increase of Rs. 176 crores in the Revenue disbursements.

Revenue Receipts :

The total gross revenue for the next year, at the existing rates of taxation, is estimated at Rs. 3867 crores *i.e.*, Rs. 280 crores more than the Revised Estimates for the current year.

The Customs revenue is expected to show an improvement of Rs 30 crores as compared to the Revised Estimates. Imports of Iron and Steel, Metals other than Iron and Steel and various item scontributing to an expected higher level of industrial production are expected to go up next year. The estimates also take into account the anticipated decrease in the import of Petroleum products with the increase in internal production.

Revenue from Union Excise Duties is placed at Rs 1679 crores *i.e.*, Rs. 153 crores higher than in the Revised, the increase being spread over a number of items, notably Petroleum products, Iron and Steel products, Rayon and Synthetic fibres and yarn, Tyres and Tubes, Cement, Matches and Motor vehicles.

Corporation and Income taxes are expected to yield Rs 765 crores *i.e.*, Rs. 45 crores more than in the Revised, having regard to the trend in the growth of revenue and better economic conditions.

The estimate of Revenue from Wealth Tax is placed at Rs 18 crores as against the Revised estimates of Rs 14 crores after taking into account the levy of Wealth Tax on agricultural property (Rs 4·75 crores) the net proceds of which (Rs 4 crores) will be passed on to the states as grants.

Interest receipts will be Rs 38 crores more due to the growing volume of loans advanced by government to the states and public undertakings The surplus profits of the Reserve Bank accruing to the government will also be Rs. 5 crores more. The rest of the increase is spread over a number of items, notably Electricity Schemes (Tarapur Atomic Power Station — Rs. 10 crores). PL 480 grants (Rs 6 crores), and Sales Tax raceipts (Rs. 1·5 crores), partly counterbalanced by less food aid from countries other than U.S.A. (Rs 20 crores as against Rs 28 crores in the current year) and absence of cash grants in lieu of interest payment (Rs 4 crores).

The states' share of Union Excise Duties will be Rs 32 crores more

than in the revised, consequent on higher estimate of collections and absence of adjustments pertaining to previous years.

The state's share of Income-tax and Estate Duty is placed at Rs 346 crores as against Rs 300 crores in the current year *i.e.*, Rs 46 crores more than in the Revised, due mainly to the inclusion of arrear payment relating to the year 1968-69 under income tax.

The Revenue receipts (Rs. 3167 crores), net of the state's share, will thus be Rs. 202 crores more than in the revised (Rs. 2965 crores).

Revenue Disbursements :

The total disbursements met from Revenue next year are estimated at Rs. 3,152 crores as against Rs. 2,976 crores this year, thus sshowing an increase of Rs. 176 crores.

The Defence expenditure (net) met from Revenue would be Rs 1,018 crores *i.e.*, Rs. 39 crores more than this year. Of this. Rs 12 crores occurs under non-effective charges (mainly pensions) due to increases in pensions. The rest is mainly due to increased expenditure on stores and pay and allowances.

The civil expenditure next year shows an increase of Rs 137 crores - Rs. 68 crores in Plan expenditure and Rs 69 crores in non-Plan items, of which interest payments account for an increase of Rs 29 crores.

Administrative Services and expenditure on collection of taxes and duties show increases of Rs 12 crores and Rs 5 crores respectively. The increase in Administrative Services is spread over a number of Departments notably External Affairs and Police.

Social and Developmental Services (Plan and non-Plan) show an increase of Rs 53 crores. The increase is spread over all the developmental heads— Scientific Departments (Rs 10 crores), Education (Rs 10 crores), Agriculture (Rs 9 Crores), Industries (Rs 4 crores), Census (Rs 4 crores), Meidical and Public Health (Rs 4 crores), Social Welfare. (Rs 4 crores for a special programme of nutrition for children in the age group of 0 to 3 years), Labour and Employment (Rs 3 crores, of which Rs 2 crores is for government contribution to the new scheme of Family Pension-cum-life Assurance for industrial workers), and other Social and Developmental Organisations (Rs. 4 crores).

Operational expenses of Tarapur and Rajasthan Atomic Power Stations account for an increase of Rs. 7 crores compared to Revised.

The provision for re-imbursement of consumer subsidy initially borne by Food Corporation in respect of indigenous and imported food-grains (Rs 25 crores) is less by Rs 7 crores as compared to the provision in the Revised Estimates (Rs. 32 crores). Provision for expenditure on displaced persons is also less by Rs 10 crores due partly to lesser write off of loans to displaced persons.

Grants-in-aid to state and union territory governments show an increase of Rs 39 crores and Rs 3 crores respectively.

The increase in grants-in-aid to state governments is on account of assistance for state plans (Rs. 8 crores), central Plan and entrally sponsored Plan schemes (Rs 22 crores), and grants for non-Plan purposes (Rs. 18 crores).

Statutory Grants to state governments will be less by Rs 9 crores on the basis of the final recommendations of the Fifth Finance Commission. Provision for relief for natural calamities is also less. However provision of Rs 25 crores has been made for rural works in selected chronically drought affected areas.

CAPITAL BUDGET

Capital Receipts

Market loans to be raised next year are placed at Rs 455 crores. With repayments at Rs. 293 crores, net receipts would be Rs 162 crores as against Rs 141 crores during the current year.

Net receipts from external assistance excluding PL 480 and other food

aid are placed at Rs 400 crores, *i.e.*, at the same level as in the current year. PL 480 Aid (excluding portion adjusted as grants taken into account in the Revenue section but including PL 480 convertible currency credit) are expected to amount to Rs 132 crores as against Rs. 206 crores in 1969-70. In addition PL 480 and other food aid adjusted in Revenue section is Rs. 29 crores.

Loan repayments by state and union territory governments are placed at Rs. 600 crores and by other parties Rs 225 crores—totalling Rs. 825 crores.

Credit has been assumed for Rs. 140 crores from small savings as against Rs 125 crores in the current year.

Under 'Other receipts' a credit of Rs 15 crores has been assumed on account of Compensation Bonds in respect of nationalised Banks.

Capital Disbursements

Rs 524 crores have been provided for Civil Expenditure as against Rs. 486 crores in the Revised Estimates for 1969-70.

Investments in government companies and corporations are less than the revised estimates by Rs 24 crores due mainly to lesser equity requirements for Bokaro (Rs. 88 crores as against Rs 160 crores this year, Rs. 89 crores having been provided in loans section) and Food Corporation of India (Rs 15 crores as against Rs 27 crores this year) offset by larger requirements spread over a number of undertakings notably Hindustan Copper Ltd., National Mineral Development Corporation, Indian Petro-Chemicals Corporation, Bharat Aluminium Co., Ltd., Air-India and others.

Provision has also been made for Rs 40 crores for compensation payments in respect of nationalised banks.

Multipurpose Projects show an increase of Rs 11 crores due mainly to accelerated programme of works on Farakka Barrage Project and outlay on central projects viz., Bhaira—Siul Hydro Electric Project, Himachal Pradesh, Salal Hydro Electric Project, Jammu & Kashmir and Loktak Hydro Electric Project, Manipur.

Increase of Rs 34 crores in Public Works occurs under roads mainly National Highways and Border Roads and other works.

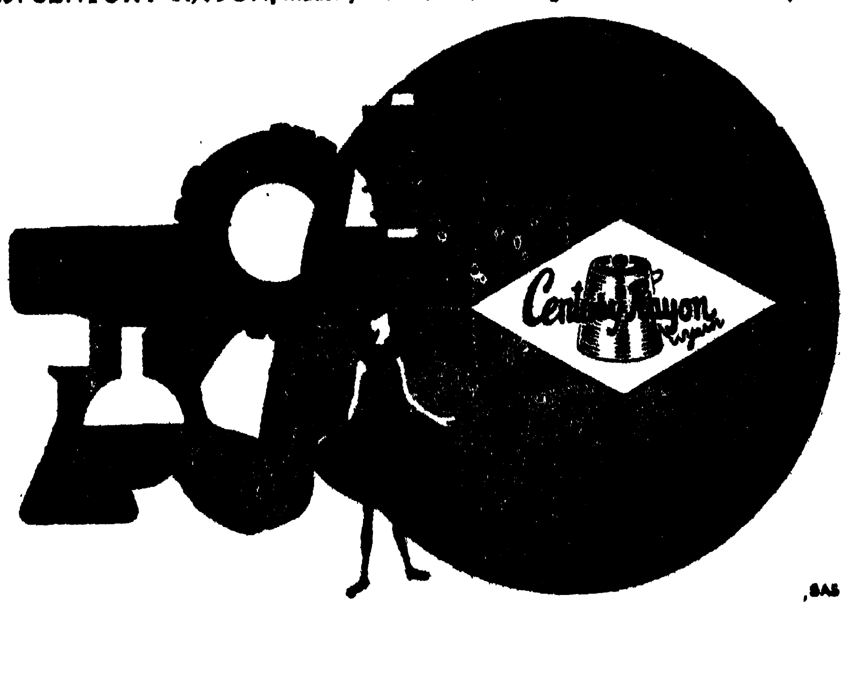
State trading schemes in respect of foodgrains show a net expenditure of Rs 5 crores mainly on account of transactions relating to shipments of gift consignments. The trading schemes in respect of Fertilizers envisage a gross expenditure of Rs 62 crores and sale proceeds of Rs 73 crores thus leaving a net profit of Rs 11 crores.

Railway Capital outlay and Defence Capital show an increase of Rs 25 crores and Rs 8 crores respectively.

The provision for loans to state governments next year is Rs 847 crores as against Rs 1032 crores this year *i.e.*, Rs. 185 crores less. This is mainly due to lesser provision for special assistance to states (Rs 175 crores as against Rs 275 crores this year), loans for natural calamities (Rs. 35 crores as against Rs 100 crores this year).

Provision for loans and advances to union territories with legislature is Rs 31 crores next year as against Rs. 26 crores this year. The provision for loans to government companies and corporations is placed at Rs. 290 crores next year, an increase of Rs 71 crores over the revised. The increase is mainly due to provision for Bokaro Steel (Rs 89 crores) partly counter-balanced by absence of provision for Food Corporation (Rs. 25 crores) and lesser provision for other undertakings.

The next Budget includes Rs 177 crores for loans to foreign Governments, port trusts, Railway and P. & T. Funds, regimental loans and loans to other parties. The decrease of Rs 28 crores is mainly because of lesser provision for Railway and P. & T. funds (Rs 29 crores) and loans to Khadi and Village Industries Commission (Rs 14 crores as against Rs 39 crores this year for rolling over loan dues) partly counterbalanced



by increased provision under regimental loans (Rs 7 crores) and for some other parties.

OVERALL POSITION

Next year's budget, at existing rates of taxation and after taking into account the Revenue surplus of Rs 15 crores, shows an overall deficit of Rs. 350 crores. The overall deficit will be reduced to Rs 225 crores as a result of the taxation proposals.

PLAN PROVISIONS

The central government's Budget for 1970-71 envisages Plan programmes amounting to Rs 1411 crores in the central and centrally Sponsored sector, comprising Rs 1195 crores provided in the various Demands for Grants, Rs 202 crores to be met from the internal resources of the Railways, Posts and Telegraphs and other non-departmental undertakings in the Public Sector and another Rs 14 crores available to the Rural Electrification Corporation out of PL 480 funds. The budget for 1970-71 also includes Plan provisions of Rs 76 crores for union territories and Rs 635 crores towards central assistance for the state Plans. Thus, the total Plan provision in the Budget for 1970-71 amounts to Rs 2122 crores, which is Rs 218 crores more than the corresponding provision of Rs 1904 crores in the current year's Budget The comparative figures for the two years are—

	Budget 1969-70	Budget 1970-71
	(Rupees in crores)	
1. CENTRAL SECTOR		
(a) Central Plan—		
(i) Met from Central Government's Budget	959	1076
(ii) Internal resources of public sector Undertakings	162	202
(iii) Other sources	3	14
TOTAL—(a) CENTRAL PLAN	1124	1292
(b) Centrally Sponsored Plan	99	119
TOTAL—I—CENTRAL SECTOR	1223	1411
II—UNION TERRITORIES :		
(a) Territories without Legislature (including NEFA)	32	38
(b) Territories with Legislature	34	38
TOTAL—II—UNION TERRITORIES	66	76
III—STATES:		
(a) Central assistance for State Plans ..	615	635
TOTAL—PLAN PROVISIONS	1904	2122

The Plan programme of Rs. 1411 crores for 1970-71 for the central Sector provides for increased outlay under each developmental head, as follows :—

PLAN OUTLAY

	Budget 1969-70	Budget 1970-71
	(Rs. in crores)	
(i) Agriculture and allied Programmes	86	125
(ii) Irrigation and flood control	2	5
(iii) Power	48	79
(iv) Industry and Minerals	546	548
(v) Transport and Communications ..	371	455
(vi) Social Services	155	183
(vii) Other programmes	15	16
TOTAL	1223	1411

2. The details are contained in a separate volume entitled "Plan-Budget Link, 1970-71".

SUMMARY OF BUDGETARY POSITION

Receipts

(In crores of Rs)

RECEIPTS	Accounts 1961-62	Accounts 1962-63	Accounts 1963-64	Accounts 1964-65	Accounts 1965-66	Accounts 1966-67	Accounts 1967-68	Accounts 1968-69	Budget 1969-70	Revised 1969-70	Budget 1970-71
REVENUE											
A. Tax Revenue Net of states' share (Details in Appendix I)	875·35	1060·98	1374·32	1562·79	1784·62	1933·95	1936·94	2018·86	2196·55	2110·37	2267·18
B. Non-Tax Revenue (Details Appendix II)	313·79	399·41	394·60	538·95	559·78	566·19	648·62	774·28	799·74	855·11	899·75
TOTAL REVENUE RECEIPTS	1189·14	1460·39	1868·92	2101·74	2344·40	2500·14	2585·56	2793·14	2996·29	2965·48	3166·93
Revenue Deficit	..	..	..	..	..	..	..	..	..	10·94	..
CAPITAL											
A. Public Debt											
1. Internal Debt											
(i) Market Loan Gross Borrowing	202·55	278·94	367·10	296·67	278·58	275·30	350·48	320·67	500·00	535·31	455·00
Repayments ..	137·62	182·30	175·97	189·04	154·96	182·79	256·70	241·54	394·00	394·00	293·30
Net	64·93	96·64	191·13	107·63	123·62	92·51	93·78	79·13	106·00	141·31	161·70
(ii) Other Debt (Net)	7·16	11·26	12·86	4·61	40·27	351·51	..	—6·63	—4·77	3·56	14·77
TOTAL	72·09	107·90	203·99	112·24	163·89	444·02	93·78	72·50	101·23	144·87	176·47
2. *External Debt*											
(i) Non PL 480 Loans											
Gross Borrowing	259·62	259·83	318·40	399·35	489·97	514·26	506·93	410·55	675·00	580·00	600·00
Repayments	65·62	46·30	63·73	84·52	88·08	159·42	187·78	176·39	207·60	179·54	200·25
Net	194·00	213·53	254·67	314·93	401·89	354·84	319·15	234·16	467·40	400·46	399·75
(ii) P.L. 480 Debt											
Dollar Credit	..	..	..	..	..	..	32·00	71·88	115·00	74·10	84·00
Rupee Loans	54·71	79·74	66·17	170·38	80·00	350·00	250·00	171·40	60·00	60·00	35·00
TOTAL	54·71	79·74	66·17	170·38	80·00	350·00	282·00	243·28	175·00	134·10	119·00
TOTAL	278·71	293·27	320·84	485·31	481·89	704·84	610·15	477·44	642·40	534·56	518·75
B. Unfunded Debt (Net)											
PL 480 Deposits	54·13	48·07	87·38	—1·57	133·06	—2·66	93·56	—70·50	40·11	71·83	13·27
Small Savings	87·53	73·91	126·88	127·48	151·35	118·36	123·41	113·71	135·25	125·25	140·20
Other Items	40·13	41·85	81·46	91·54	91·78	76·05	135·07	33·91	22·88	29·12	65·20
TOTAL	181·79	163·83	295·72	217·45	376·19	191·75	352·54	77·12	198·24	226·20	218·67
C. Repayments of Loans and Advances	200·83	170·87	214·38	289·06	373·49	418·55	494·44	742·00	745·00	880·00	825·00
D. Other Heads (Net)†	22·90	164·01	99·66	153·73	7·80	69·36	177·89	213·04	43·01	189·88	84·82
TOTAL—CAPITAL RECEIPTS	726·32	899·88	1134·59	1257·79	1403·26	1828·52	1719·80	188·248	1729·88	1975·51	1823·71
TOTAL RECEIPTS	1915·46	2360·27	3003·51	3359·53	3747·66	4328·66	4305·36	4375·62	4726·17	4940·99	4990·64
Overall Deficit	114·51	156·14	166·86	171·84	172·76	295·29	206·29	262·38	253·68	290·11	350·00

*Excludes conversion of *ad hoc* Treasury Bills of Rs. 50 crores each in 1961-62 and 1962-63, Rs. 75 crores in 1963-64 and Rs. 50 crores each in 1964-65 and Rs. 50 crores each in 1964-65, 1965-66 and 1966-67 and Rs. 75 crores each in 1967-68, 1968-69 and R.E. 1969-70.

†Excludes notional transfer of P.L. 480 loans to the Special Development Fund.

SUMMARY OF BUDGETARY POSITION — *Contd.*

Disbursements

(In crores of rupees)

DISBURSEMENTS	Accounts 1961-62	Accounts 1962-63	Accounts 1963-64	Accounts 1964-65	Accounts 1965-66	Accounts 1966-67	Accounts 1967-68	Accounts 1968-69	Budget 1969-70	Revised 1969-70	Budget 1970-71
REVENUE											
1. Civil Expenditure											
A. Development expenditure (Details in Appendix III).	182·19	216·26	195·28	220·76	257·64	300·47	323·48	343·41	398·23	398·46	467·76
B. Other Expenditure (Details in Appendix IV)	397·58	510·36	551·91	645·58	680·75	768·17	821·89	904·02	979·74	1006·58	1030·48
2. Defence Expenditure (Net)	289·54	425·30	704·15	692·85	762·18	797·80	862·21	929·05	985·78	979·32	1017·84
3. Grants to State and Union Territory Governments ..	194·08	195·03	229·97	268·68	324·07	405·89	473·30	535·70	596·18	592·06	636·10
TOTAL REVENUE DISBURSEMENTS	1064·79	1346·95	1681·31	1827·87	2024·64	2272·33	2481·28	2712·18	2959·93	2976·42	3152·18
REVENUE SURPLUS	124·85	113·44	187·61	273·87	319·76	227·81	104·28	80·96	36·36	..	14·75
CAPITAL											
1. Developmental Expenditure (Details in Appendix VI)	343·48	495·11	613·60	632·08	579·02	511·48	465·34	498·88	673·85	653·60	727·39
2. Other Expenditure†	11·04	—13·99	23·01	29·76	—5·83	322·07	95·04	—175·11	— 28·49	—6·54	—18·04
3. Defence Expenditure	22·95	48·61	111·97	112·95	122·57	110·79	106·22	104·14	124·22	125·42	133·67
4. Loans and Advances											
(i) States and Union territories	443·47	511·09	583·60	678·70	828·92	930·89	891·94	915·27	793·74	1057·97	878·25
(ii) Other Parties	144·74	128·64	156·88	250·01	371·10	476·39	471·83	582·64	456·60	424·23	467·19
TOTAL CAPITAL DISBURSEMENTS ..	965·68	1169·46	1489·06	1703·50	1895·78	2351·62	2030·37	1925·82	2019·92	2254·68	2188·46
TOTAL DISBURSEMENTS	2029·97	2516·41	3170·37	3531·37	3920·42	4623·95	4511·65	4638·00	4979·85	5231·10	5340·64

COMPANY MEETING

THE INDUSTRIAL CREDIT AND INVESTMENT CORPORATION OF INDIA LIMITED

The following is the Statement by the Chairman, Shri G.L.Mehta, circulated to the Shareholders with the Directors' Report and Accounts for the year ended December 31, 1969

TO THE MEMBERS

1. I have pleasure in placing before you for your consideration the Fifteenth Annual Report of the Board of Directors of the Corporation for the year ended December 31, 1969.

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2. In retrospect, the sixties, despite the political difficulties it has had to face, must be deemed for India an era of economic progress and even liberation. If the impact of the economic progress does not appear as exhilarating as it should have been, it is because of the leavening provided by the political difficulties.

3. These political difficulties have been both internal and external. Internally, the country saw the death of two Prime Ministers in office within a period of two years. In more recent times, the split in the largest political party which at one time was coterminous with the national movement has worsened the parliamentary position of the ruling party, and accentuated to some extent the differences between the Centre and the States.

4. Externally, India has had to face two aggressions. As a result, India finds its defence bill raised permanently, reducing to that extent resources available for development. This is a cost that has to be paid so long as India's neighbours remain unfriendly.

5. The country has also had to face economic setbacks. The country was faced with persistent foreign exchange difficulties in the early-sixties, leading ultimately to a substantial devaluation of the rupee. There were two droughts which reduced agricultural output—in an economy which is subsistent only marginally in agriculture in the best of years—by almost 20 per cent. An industrial recession brought about by faulty planning and budgetary stringency also adversely influenced investment activity in the economy.

6. Nevertheless, despite these difficulties, the economic progress made in the sixties is not inconsiderable. After much research, science at last has had an upper hand in agriculture. India has had by now three good harvests in a row. In industry, the country has built up a large base not only in simple consumer goods industries (cotton textiles, sugar) but also in basic industries (iron and steel, aluminium) and in machinery building and fabrication (machine tools, cement and sugar plants and heavy engineering equipment). India is emerging as an exporter of manufactured goods. The physical and financial infra-structure—road and rail transport, banking in its various aspects—has been expanded, and, more recently, a structural change in banking, intended as a first step in taking banking services to a broader group of the population and productive enterprises, has been brought about.

7. The intangible progress made is even more remarkable than this tangible progress. In agriculture, seeds have been laid for progress so that agricultural output is likely to outpace population growth over the coming years. In industry, significant progress has been made in building up design facilities, consultancy services and management training, and a broader base has been laid for further industrial development. Whether by chance or design, a well-knit industrial structure has been established so that for the given production facilities the average requirement of imports has steadily diminished, and the balance of payments gap has been narrowed to some extent. In all these respects, India is more self-reliant to-day than a decade ago.

8. And yet it cannot be denied that the economy has shown signs of faltering during the last two or three years. While there was need for some pause after the difficulties in mid-sixties, we have tended to over-react to the difficulties. From an effort to stabilise the economy, we have slided into an economic condition which can only be described as stagnation. In the context of our economic development this is not desirable either politically or economically. I had drawn attention to this situation in my statement last year, and suggested the need for increasing the level of over-all investment and the lines in which it could be canalised. I do hope Government will recognise the need for such investment and take early steps to put the economy in a higher gear.

*

9. Worthwhile as this progress is, it is not something that is adequate. We have hardly touched the fringe of our economic problem so far and have to go a considerable way to meet even the minimum needs of the bulk of our population. Not only the scale of the effort required has to be much larger; the quality of the endeavour has to be different. We cannot merely seek to duplicate our existing production pattern: as incomes and output grow, the kind of goods that will be required in the country will necessarily change.

10. This is no less true of agriculture than of industry. To some extent, the problem of scale in agriculture is of a smaller magnitude than in industry, and the agricultural problem, though more urgent because it is more vitally associated with the minimum needs of the people, is easier of solution. Solely in terms of quantities, the gap in agricultural produc-

tion between India and other countries (advanced as well as comparable) is not very large, as the following table shows:

	Population (1967)	Production of all Cereals (1967)	
	(mn. nos.)	Total (mn. tonnes)	Per capita grams/day
U.S.A.	199	252.6	3,478
U.S.S.R.	236	141.3	1,640
France	50	31.8	1,742
Japan	100	21.0	575
China	797	184.3	634
India	511	96.0	515

Source: *Production Yearbook 1968, Food and Agriculture Organization, United Nations.*

11. In terms of cereal production per head, the highest availability is seven times that in India. This is a gap which can more easily be filled over a decade, particularly given the more recent advances in the use of modern techniques in agriculture. India is already using improved seeds over increasingly larger cultivated area. Moreover, the farmer is using more inputs—fertilisers, tractor-power—in cultivation; your Corporation has played a substantial part in the production of these inputs.

12. Significantly, merely in quantity terms, 400 grams of grains per head per day, equally distributed, is adequate for providing the minimum nourishment required. We have, however, here the problem, firstly, of assuring to the population the minimum level of income needed to buy this quantity of foodgrains. And secondly, such a diet would be deficient in proteins and is, therefore, not balanced.

13. Consequently, we have a problem not only of scale but of quality. This is a matter both of balance and of diversity in diet. As incomes increase, the demand for higher quality foods like vegetables and fruits and foods in other forms whose nourishment value per acre of output is not large, increase. We are already witnessing a similar shift in demand within the foodgrains sector from lower quality foodgrains (pulses, bajra, maize) to higher quality foodgrains (rice, wheat). This trend is likely to be reinforced in future as per capita incomes increase.

14. It is, however, the gap in industry which is much wider among several countries:

	Population	Value Added in Manufacture	
	(mn. nos.)	Total $mn.	Per capita $
U.S.A. (1966)	197	251,000	1,274
U.S.S.R. (1967)	236	128,800	546
U.K. (1963)	54	30,000	556
Federal Republic of Germany (1967)	57	47,300	830
Japan (1965)	98	26,500	270
India (1965)	487	383	0.8

Source: *Statistical Yearbook* 1968, *United Nations.*

Again, purely in quantitative terms, the gap in industry is far wider as between India and other countries than in agriculture. The task before India in filling this gap is much harder but no less imperative.

15. The gap here is also both quantitative and qualitative — far more the latter than the former. The Table below gives production statistics for 1967 for selected commodities:

	Population (mn. nos.)	Steel (mn. tonnes)	Aluminium (000 tonnes)	Coal (mn. tonnes)	Cement (mn. tonnes)	Artificial fibres (mn. lbs.)
U.S.A.	199	127	3269	530	71	3068
U.S.S.R.	236	113	1064	456	93	678
U.K.	55	27	43	193	20	645
Federal Republic of Germany	57	41	279	124	35	700
Japan	100	69	421	52	47	1576
China	797	12	100	463	12	N.A.
India	511	7	96	75	12	213

Sources: 1. *Statistical Abstract* 1969, *U.S.A.*
2. 1969 *Commodity Yearbook, U.S.A.*

It is necessary that we seek to multiply manyfold our production of basic goods—such as iron and steel and aluminium,

This is the quantitative problem and although it is large and needs sustained and concerted effort, is not insurmountable.

16. It is, however, the filling of the qualitative gap—represented by the technology-based and science-based industries—which constitutes the more onerous task. These industries comprise petro-chemicals, electronics, optics, antibiotics, computer technology—all activities which have a high element of modern scientific and technological research. Even a country like the U.S.S.R., despite its progress in some fields like space research, is far behind countries like Japan in many of these industries.

17. As incomes rise, the demand for more sophisticated goods will rise; the present contentment with shoddy, low-quality and outdated goods is hardly going to last long. India has hardly touched the threshold of these new-generation industries: while quantitatively behind in these fields, she is far more behind qualitatively. The only modern sphere in which we have made significant progress is nuclear research. To make similar progress in other fields, it will be necessary to devote to them the same degree of resources and human talent.

18. In the next decade, therefore, the task before the country will be to seek to increase substantially the output of traditional industries (including among these now, iron and steel, aluminium, machine tools and so on), and to devote an increasing proportion of resources—human and material— to the development of the newer, science-based industries. The development of television industry on a large-scale can give a large impetus to the electronics industry. If in the fifties and the sixties we have made considerable advance in what might be called pre-war industries, in the seventies, India will have to make an attempt to catch up on the industries developed in advanced countries during the post-war era.

*

19. The implications of these developments for industrial management can hardly be less far-reaching. Obviously, many of these industries, even at a minimum scale, are much larger than the existing industries. Besides, being newer, the expertise needed to manage them is not of the same kind as by now we have mastered.

20. We still have a belief in India that ownership gives with it not only the right to, but also the qualities of, management. Consequently, owners want to manage the industries they own but also feel that, like ownership, management can also be transferred through inheritance. These attitudes are changing, though only very gradually. It is becoming recognised that the better performance of foreign enterprises is due partly at any rate to the quality of their management. Recent changes in legislation, like abolition of the managing agency system, should open the door to the required management changes. The direction the industrial pattern will take in the seventies will hasten these changes.

21. What is equally important, our industry, copying or borrowing foreign technology, has not recognised adequately the importance of research and development in fostering industrialisation. Almost all the progress made in recent times in advanced countries—socialistic no less than others—has been the product of developments in the laboratory. And yet there are few countries in the world where better opportunities for such work per unit of expenditure exist than in India. India has a vast reservoir of science graduates and technicians with the required minimum training; moreover, given the supply-demand situation, it is still a very inexpensive source of scientific knowledge and talent. It is essential that our industry recognises and makes use of this opportunity to lay the seeds of further development, in the process also solving the intensely human problem of the educated unemployed in this country.

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22. These developments will require further growth and refinement of tertiary activities—transport and financial infrastructure. Increasingly as industry becomes broad-based and decentralised, the demand for road transport will rise faster than the over-all demand for transport. The number of vehicles required for such transport will be large and we need to develop the automobile industry to cater to this demand. It is necessary that we begin to do the groundwork now for meeting this demand.

23. As industry becomes larger and satisfies the less urgent needs of the people, its demand for financial services will become more diverse. Finance institutions, including banks, will need to meet the more sophisticated financial needs of industry. It will be necessary for companies to have close financial planning at the enterprise level. It will be necessary to develop merchant banking facilities to meet these needs. Your Corporation recognises the need for such approach in financing the more complex management-oriented industries.

24. Your Corporation took last year various steps to make its services available more broadly and for the greater convenience of its clients. As a first measure in this direction, the Corporation opened two offices outside Bombay, the first in Calcutta in March and the second in Madras in September. These offices help to service existing clients in follow-up matters and constitute a preliminary contact point for new clients. We are hopeful that the expectations with which we have set up these offices would in course of time be fulfilled as they undertake diverse and important functions.

25. Besides, the Corporation which has so far provided finance only to joint stock companies proposes to extend its operations by providing foreign exchange to proprietory and partnership concerns. This is an important and growing segment of our economy and it is appropriate that the Corporation seeks to meet its needs. This is a new field of activity for the Corporation, and we expect that it will form an important element in our total operations.

26. The Corporation also recognises the need to introduce more sophisticated financial techniques in the management of enterprises—business, industrial and financial—in the country. The Corporation has sponsored the setting up of an institute of financial management in Tamil Nadu for the purpose; the Corporation proposes to provide substantial financial support for the institute.

27. In its operations, the Corporation has always emphasised professionalism in its staff. It has had the advantage of a devoted, diligent and conscientious staff in carrying on its operations. As a result of this emphasis on professio-

nalism, the Corporation has built up significant professional experience. On occasions, the Corporation has supplied the services of its staff members to local banking institutes and to development banks outside India. The Corporation relies on various courses offered by management institutes in the country to develop this professional character. The Corporation recognises the need to provide for staffing requirements to meet its future needs and follows a policy of selective recruitment to meet these needs

28. Net sanctions during 1969 amounted to Rs. 30.02 crores. Of these, an amount of Rs. 23.24 crores was in respect of 61 specific projects. The total cost of these projects, when completed, is estimated at Rs. 181.30 crores (including Rs. 45.08 crores for working capital requirements). This cost is proposed to be met by Rs. 36.08 crores share capital (Rs. 26.00 crores ordinary and Rs. 10.08 crores preference); Rs. 86.58 crores long-term loans and debentures, Rs. 2.72 crores deferred payments and Rs. 55.92 crores bank borrowings, unsecured deposits and cash accruals. The total turnover of these projects in a year of normal production is estimated to amount to Rs. 138.23 crores.

29. During the year under review, the Corporation augmented its rupee resources by an issue of debentures of Rs. 5 crores; the debenture issue was over subscribed. I would like to thank all those institutions and individuals who helped us to make the issue a success. This was our second debenture issue on the capital market. It underlines our efforts to raise additional funds through the capital market mechanism. I would like to stress again that the recognition of Corporation's securities as trustee investments under the Indian Trusts Act, 1882, will considerably help us in raising resources from the market and thus, in widening and developing the Indian capital market.

30. I am glad to inform you that we received the first sterling loan from the British Government amounting to £ 1 million (Rs. 180 lacs) during 1969 through the Government of India; the Industrial Development Bank of India provided the Corporation equivalent rupee funds of Rs. 180 lacs to make the loan operative. Negotiations for a second loan from the U.K. of £ 1 million are under way. Similarly, the Loan Agreement for the eighth line of credit of DM 5 million (Rs. 102 lacs) from Kreditanstalt fur Wiederaufbau (KfW) was signed during the year. Another line of credit of DM 5 million (Rs. 102 lacs) has recently been sanctioned by the KfW, the negotiations for which are in progress. We are also approaching the International Bank for Reconstruction and Development for a further line of credit during the current year. I would like to thank the I. B.R.D., the KfW and the Government of the U.K. for the continued confidence they have shown in our Corporation.

31. Income from interest, dividends, underwriting commission and other sources amounted to Rs 898.03 lacs in 1969 (Rs 840.60 lacs in 1968). Interest paid on loans and other expenses during the year amounted to Rs 603.71 lacs (Rs 567.98 lacs in 1968). Profits before tax amounted to Rs 294.32 lacs (Rs 272.62 lacs in 1968). Out of this, provision for taxation has been made at Rs 133.93 lacs (Rs 128.93 lacs in 1968). Of the balance of Rs 160.39 lacs (Rs 143.69 lacs in 1968) carried to the appropriation account, Rs 30 lacs (Rs 25 lacs in 1968) has been transferred to General Reserve, Rs 25 lacs to Reserve Against Doubtful Debts (Rs 20 lacs in 1968) and Rs 44 lacs (Rs 36 lacs in 1968) has been taken to Special Reserve; in addition, the whole of the capital gain of Rs 20.09 lacs (Rs 5.51 lacs in 1968) after taxation has also been transferred to Capital Reserve Not Available for Dividend. The Directors are glad to recommend a dividend of 9 per cent.

32. The Economic Development Institute (an affiliate of the World Bank) sent one trainee—Mr. Iradj Azarm from Iran—in 1969 for practical training with the Corporation for a period of two weeks. Besides, we had with us, for various periods, Mr. William Cooke and Mr. Agyekum Kwatiah, both from Ghana, Dr. P. Wignaraja from the U.N., Mr. H.A.L. Kumarasiri from Ceylon and Mr. D.P. Dhungyal from Nepal as trainees. The Corporation also extended training facilities to officials from different finance institutions and other organisations in the country to study its procedures and methods of work. Under our own training programme, we have invited this year officers from the Korea Development Finance Corporation of South Korea and the Bank Pembangunam Indonesia of Indonesia for training with us. The Corporation lent the services of one of its officers, Shri M.C. Shetty, to the Asian Development Bank, Manila, the Philippines.

33. Finally, I would like to mention that this Corporation has continued to receive from its staff devoted service; I would like to take this opportunity to express my sincere thanks to them.

Bombay, February 12, 1970.

Economic Survey: 1969-70

THE SURVEY of our economy for 1969-70 prepared by the Ministry of Finance and presented to Parliament on February 24, indicates that a significant increase in both supply and demand is expected in 1970-71. Because of the recent upward pressure on prices, the increase in supply next year might not match the increase in demand without the aid of conscious policy measures such as increased imports and restraint in demand through fiscal and monetary policies. Excerpts from the survey follow :

The Economic Survey for 1968-69 expressed the hope that with the problems of food, inflation and external viability being overcome, it should be possible for the economy to turn to the task of long-term growth in 1969-70. There is every likelihood of the target of an overall growth rate of 5 to 5½ per cent per annum being achieved in 1969-70, the first year of the fourth Plan. Total foodgrains production which had declined from 95·1 million tonnes in 1967-68 to 94·0 million tonnes in 1968-69 should increase considerably in the current year. The output of commercial crops such as raw cotton and oil seeds, while still inadequate in relation to total needs, has registered a significant recovery from the low level of the previous year. The recovery in the output of jute has been substantial; and in sugar, 1969-70 should mark a further increase over the high level already reached in 1968-69. Industrial production which had increased by 6·4 per cent in 1968 is expected to register a further increase of 7·5 per cent in 1969.

Increase in Outlay

The combined budgets of the centre and the states for 1969-70 had envisaged an increase in developmental outlay of the order of 10 per cent. This outlay was contingent on additional resource mobilisation both at the centre and in the states. Substantial measures of additional taxation were incorporated in the central budget presented last year; and in the course of the year the resources available to the state governments were augmented not only by some measures of taxation introduced by them but also by larger transfers from the centre and substantially larger borrowing from the market. The ratio of total tax revenues to national income which had declined during the years of the drought (from 14·2 per cent in 1965-66 to 12·4 per cent in 1967-68) recovered to 12·8 per cent in 1968-69 and should reach approximately 13 per cent in 1969-70. It is not possible at this stage to indicate with any degree of precision the actual step-up in developmental outlays during the current year. But there is no doubt that developmental activities in the public sector have been accelerated. Private investment activity in agriculture, small industry, and construction has been buoyant; and while there is so far no clear indication of an increase in private investment expenditure in organised industry, there has been a distinct revival of interest in new investment activity in this sector.

The average level of prices during the 12 months ended December 1969 was higher by 2·1 per cent as compared to 1968. There was an unusual increase in prices between January and July 1969, followed by a decline from August to mid-November. More recently there has been renewed upward pressure and the monthly average of wholesale prices during January 1970 was 6·8 per cent higher than a year ago. With the good crop conditions during the current year, it should be possible to maintain the climate of relative price stability which has now prevailed over the past two years. But it would require continued emphasis on supporting higher developmental outlays with the mobilisation of genuine resources, vigilance in regard to bank credit and selective but timely increase in imports to supplement domestic availabilities.

The year 1968-69 had witnessed dramatic improvement in India's external account. Imports had declined in that year by 7·3 per cent and exports had increased by 13·5 per cent with the result that the trade deficit was reduced from Rs 809 crores to Rs 502 crores.* Total foreign exchange reserves increased by Rs 38·1 crores in 1968-69, after a net repayment of Rs 58·5 crores to the International Monetary Fund. During the current year, the trade gap is likely to be narrowed further and foreign exchange reserves should register once again an increase of the order of Rs 50 to 75 crores, after providing for a net repayment of Rs 125·2 crores to the International Monetary Fund and without taking into account the accretion of Rs 94·5 crores by way of Special Drawing Rights. However, the improvement in the trade account during the current year is the result of a further decline in imports rather than of any significant increase in exports. With the recovery in industrial production, the demand for the import of raw materials and components is bound to grow as is evidenced by the large increase in import licences issued for this purpose in the current year. In regard to machinery imports also despite impressive gains in import replacement, there is bound to be an upward trend as investment activity accelerates beyond the initial stage of project preparation, land acquisition and construction of factory buildings which require little imports as compared to plant and machinery. Continued dynamism in exports is thus necessary to match increases in imports, quite apart from the need to meet growing debt repayments and progress towards self-reliance.

*These figures differ from the balance of payments data given under Balance of Payments and Foreign Aid.

While the overall economic situation in 1969-70 has thus been satisfactory, the developments during the year have, however, emphasized the need for further remedial action on a number of fronts. It is clear, for example, that the spread of new technology which is well advanced in the case of wheat and promising in the case of rice, cannot be sustained unless greater attention is paid to coarse grains, pulses and commercial crops in general and to dry farming areas in particular. This requires co-ordinated action regarding research, land consolidation, land reforms as well as the spread of ancillary activities and credit and marketing facilities. The effort to spread the benefits of better agricultural techniques is thus necessary not only for avoiding social tensions and ensuring social justice but also for sustained increases in production.

The experience of the past two or three years also suggests that as the Indian economy operates on a very narrow margin worrisome shortages develop with only a marginal shortfall in supplies or a marginal increase in demand. We have already noted that the behaviour of the prices of agricultural raw materials and of some foodgrains, such as pulses, underlines the need for specific action for increasing productivity and yields of these vital crops if the overall stability in prices made possible by higher yields per acre for major cereals, such as wheat and rice, is not to be jeopardised. Similarly, despite the diversification of the industrial structure and the background of excess capacity in a large number of industries for the past few years, the need for expanding industrial capacity selectively to keep ahead of demands

TABLE I

SELECTED ECONOMIC INDICATORS

	1965-66	1966-67	1967-68	1968-69	1969-70
	(Percentage change over previous year)				
1	2	3	4	5	6
1. National income at constant prices	—5·6	+0·9	+8·9	+1·8*	+5—5·5†
2. Agricultural production	—17·1	-0·4	+22 3	—1·4	..
3. Foodgrains production	– 19·4	+3·1	+28·0	—1·1	..
4. Industrial production	+5·1	+0·3	+0·5	+6·3	+7·5**
5. Electricity generated ..	+10·3	+9·7	+12·6	+14·1	+12·9**
6. Wholesale prices	+7·6	+13·9	+11·6	--1·1	+2·6††
7. Money supply	+10·7	+8·3	+9·1	+8·1	+11·2***
8. Imports	+4·4	-6·3	—3·4	--7 3	—19·1††
9. Exports	—1·3	--8·9	+3·6	+13·5	+1·5††
10. Freight carried by Railways ..	+9·7	--0·3	+1·9	+5·3	+6·1**

*Quick estimate.
†Estimated
**April-September, 1969 compared to April-September, 1968.
††April-December, 1969 compared to April-December, 1968,
***December 26, 1969 compared to December 27, 1968.

which will and must inevitably grow cannot be overlooked.

It is also clear that a good deal of the capacity that exists in the country remains unutilized for reasons other than a lack of demand such as labour troubles, lack of proper maintenance or the absence of small but crucial technical improvements or balancing investment. Attention to these problems becomes more urgent as demand revives if the need for creating additional capacity *de novo* is to be minimised.

Shortages have already begun to appear in basic materials such as steel, staple fibre and aluminium. Similar shortages in regard to consumer goods industries can be avoided only by timely action to increase capacity in the near future. In some commodities, such as fertilizers, the surpluses that have temporarily emerged are, in fact, an index of the need for greater promotional activity. The improvement and expansion of capacity for fertilizer production in the country remain, therefore, matters of the highest priority. Recent trends in exports have also once again emphasised the need for continued effort for achieving a steady growth in export earnings. The improvement in foreign exchange reserves while welcome, has yet to reach proportions which can ensure a reasonable degree of comfort against inevitable fluctuations in our balance of payments. In the fiscal sphere what has been achieved over the past year or two still falls short of the position that was already reached some years back. Recent events have also highlighted the need for a credit policy which is promotional in its accent without ceasing to be vigilant about speculative pressures or unrewarding uses. In short, our experience over the past year or two shows that while the prospects for continued economic growth are good, the opportunities available cannot be fully seized without continued vigorous efforts in a number of directions including export promotion, mobilisation of resources, a healthy climate for investment and for improvement of productivity and the involvement of larger and larger sections of the people in the process of development.

Agricultural Production

Agricultural production in 1968-69 did not maintain the tempo of growth registered in 1967-68 on account of unfavourable weather conditions in many parts of the country. Foodgrains production which had increased by 28·2 per cent to 95·1 million tonnes in 1967-68 was slightly lower at 94 0 million tonnes in 1968-69. And commercial crops with the exception of sugarcane, were affected even more. The output of cotton was slightly lower and the fall in the output of oilseeds was about 13 per cent The jute crop was particularly poor. Altogether, the index of agricultural production for 1968-69 stood at 158·7 as compared to 161 for 1967-68.

The decline in foodgrains production in 1968-69 was due to a fall in the production of coarse grains and pulses. Production of both rice and wheat was higher than in the previous year. Production of rice rose between the two years by over 2 million tonnes to 39 8 million tonnes and surpassed the earlier high level of 39·3 million tonnes in 1964-65. Production of wheat also increased by over 2 million tonnes and maintained the upward trend noticed since 1966-67. The year 1968-69 marked a decisive confirmation of the revolution in wheat cultivation as wheat output rose, despite not too favourable weather conditions, to 18 7 million tonnes, from the annual average of 11 million tonnes for the five years previous to 1965-66. On the other hand, the output of coarse cereals declined by 3·6 million tonnes, the principal sufferers being barley, bajra and maize. Similarly, the output of pulses also was lower by a little less than two million tonnes, entirely because of an equivalent decline in the output of gram. The output of gram in 1968-69, 4·3 million tonnes, was about the same as the output in the drought year of 1965-66.

The situation in respect of commercial crops is similar to that of millets and pulses. The output of jute was particularly low. The output of oilseeds also fell sharply, by 1·4 million tonnes, principally because of a shortfall in the production of groundnuts. The output of tobacco was lower than in 1967-68. Cotton production was marginally lower. Sugarcane was the only important exception, its output having gone up by over 2 million tonnes to the high levels of 1964-65 and 1965-66 The output of tea was higher by about 5 per cent.

Industrial Performance

Industrial production which had begun to recover in 1968 from the recession experienced in 1966 and 1967 continued its upward progress in 1969. Production which had been stagnant in 1966 and 1967 rose by 6·4 per cent in 1968. Data available up to September 1969 indicate a rate of growth of 7·3 per cent over the comparable period in 1968. On this basis the growth of industrial product on during the year as a whole would be substantially higher than in 1968.

The recession in industry had been initiated by the serious drop in agricultural production in the two drought years. The result had been a sizable decline in activity in industries which were based on agricultural raw materials and which were oriented towards the agricultural consumer. The difficulties regarding resource mobilisation in such a context and the need to maintain price stability in the face of diminishing supplies had necessitated restraint on the public investment programmes with consequent curtailment of demand for electric transmission and generation equipment, non-electri-

TABLE II

PRODUCTION OF FOODGRAINS

(Million tonnes)

	1964-65	1965-66	1966-67	1967-68	1968-69
1	2	3	4	5	6
Cereals	76·9	62·2	65·9	83·0	83·6
of which :					
Rice	39·3	30·7	30·4	37·6	39·8
Wheat	12·3	10·4	11·4	16·5	18·7
Coarse grains	25 4	21·2	24 1	28·8	25·2
Pulses	12·4	9·8	8 3	12·1	10 4
of which : Gram	5·8	4·2	3·6	6·0	4·3
Total Foodgrains	**89 4**	**72·0**	**74·2**	**95·1**	**94·0**

Note:—Figures are subject to rounding errors.

TABLE III

PRODUCTION OF COMMERCIAL CROPS*

	Unit	1965-66	1966-67	1967-78	1968-69	1969-70**
1	2	3	4	5	6	7
Oilseeds	Mn. tonnes	8·2	8·4	10·4	9·0	10·0
of which :						
Groundnuts	Do.	4·2	4·4	5·7	4·5	5·0
Rapeseed and Mustard	Do.	1·3	1·2	1·6	1·6	1·6
Jute and mesta ..	Mn. bales	5·8	6·6	7·6	4·0	7·0
Cotton (lint) ..	Do.	4·8	5·0	5·5	5·3	5·8
Tea	Mn. kgs.	366	376	385	402	395
Coffee	'000 tonnes	63·9	78·3	57·0	73·0	69·0
Sugarcane (in terms of gur)	Mn. tonnes	12·1	9·5	9·8	12·0	12·5
Tobacco	'000 tonnes	298	353	369	347	364

*Relates to crop years.
**Trade Estimates.

cal machinery and the like. The general decline in the volume of agricultural and non-agricultural traffic led to a reduction in the railway investment programme and affected activity in transport-oriented industries.

The situation has further improved for many more industries in 1969 and in a few expansion of output is not possible because of capacity constraints. Many consumer goods industries have recorded further improvement. Industries producing sugar, radios, electric lamps, motor cycles and scooters are continuing to increase their output. Output in the cotton textile industry, however, was marginally lower. Intermediate industries like iron and steel, non-ferrous metals, cement and chemicals are also producing more. The production of jute manufactures declined sharply till September 1969 due to a strike. It has however shown some recovery towards the end of 1969. The transport industries have made further gains, except those manufacturing railway equipment.

Industrial Investment

There is a significant improvement in the investment climate. Production has increased substantially and in a few cases further expansion is limited by capacity constraints. The future prospect also seems to be good with rising agricultural incomes, increased government activity and growing industrial export demand. The reports of corporate performance are uniformly encouraging and the stock markets show a strong tendency towards buoyancy. The few issues that have appeared in the market have been generously over-subscribed. Under such circumstances it would have been normal to expect a large number of new issues and a great deal of preparation to enter the capital market in the near future. However, figures of consents for capital issues and capital raised during the current year do not indicate a significant increase in investment expenditure over last year, when the outlook was not so good.

It is possible to explain the situation in two ways. Firstly, the effect of the shock to entrepreneurial confidence given by the recession is not yet completely erased. Entrepreneurs would like to wait and see clearer signs of demand rather than be wholly guided, as they were earlier, by the targets laid down in the Plan. The number of applications for industrial licences during 1969 is very much larger than the number for 1968; the number of letters of intent given in 1969 is double the number in 1968. Such information as is available on investment intentions also indicates a revival of investment interest. Therefore investment can be expected to follow soon. The present delay perhaps represents an extended lag between suitable investment conditions and investment decisions.

The second possible explanation is the difficuity in making the necessary arrangements for

TABLE IV

CONSENTS FOR THE ISSUE OF CAPITAL GRANTED BY CONTROLLER OF CAPITAL ISSUES, AND CAPITAL RAISED

(Rs crores)

	1966	1967	1968	1969
A. Consents				
All Companies	486·0	233·7	135·2	143·5
1. (*i*) Govt. companies	196·2	2·4	5·8	12·0
(*ii*) Non Govt. companies	298·8	231·3	129·4	131·5
2. (*i*) Bonus ..	146·2	48·5	31·4	41·1
(*ii*) Others (including initial, further, debenture and loans)	339·8	185·2	103·8	102·4
B. Capital raised				
Total	308·2	284·1	299·9	N.A.
of which :				Jan.-June
				1968-1969
Private sector*	78·6	86·3	95·4	39·5 22·3

*Comprises equity, preference and debenture capital.

foreign exchange finance is the absence of adequate project assistance. In the present circumstances even a modest investment proposition requiring capital goods imports of Rs 5 to 10 crores necessitates arrangements with a group of foreign creditors thus entailing considerable time and delay in putting together the total package of foreign exchange requirements.

The budget for 1969-70 was framed against the background of a marked improvement in the price situation and a noticeable recovery in agricultural and industrial production. The budget of the central government, therefore, contained, a number of measures aimed at stepping up the level of investment in the economy in order to resume the threads of economic growth. Government also took some more measures to simplify and rationalise the tax structure, check tax avoidance and evasion and make the tax structure growth-oriented.

Total developmental and non-developmental expenditures of the central and state governments were estimated at Rs 7540 crores for 1969-70 and represented an increase of 8·6 per cent over the revised estimate of Rs 6944 crores for 1968-69. Developmental expenditure, budgeted at Rs 4336 crores for 1969-70, indicated an increase of 9.9 per cent over the preceding year's level and non-developmental expenditure, estimated at Rs 3204 crores for 1969-70, was 6·9 per cent higher as compared with the revised estimates for 1968-69.

TABLE V

EXPENDITURE OF CENTRAL AND STATE GOVERNMENTS AND UNION TERRITORIES

	Percentage increase in		
	1967-68 over 1966-67	1968-69 (RE) over 1967-68	1969-70 (BE) over 1968-69 (RE)
1	2	3	4
I. Total expenditure	8·1	7·7	8·6
Developmental ..	7·6	7·3	9·9
Non-developmental	10·5*	8·2	6·9
II. Current revenues	7·5	7·8	8·4
Tax revenues	5·9	7·1	7·8
Non-tax revenues	12·8	9·9	10·1

*After ignoring accounting transactions.

Increases in outlays on defence, interest charges, and police accounted for about three-fourths of total increase in the level of non-developmental expenditure. The provision for food subsidy as also for famine relief provided in the central and state budgets for 1969-70 was, on the other hand, smaller than the provisions contained in the 1968-69 budget. The central budget for 1969-70 provided Rs 20 crores on account of food subsidy as against the revised estimate of Rs 26 crores for 1968-69 and the actual food subsidy of Rs 95 crores in 1967-68. Similarly, the provision made for famine relief in the state budgets for 1969-70 amounted to Rs 58 crores as against the revised estimate of Rs 86 crores for 1968-69.

Tax Effort During 1969-70

The total tax revenues of the central and state governments are estimated to rise from Rs 3,701 crores in 1968-69 to Rs 3,990 crores in 1969-70. The proportion of tax revenues to national income which had declined from 14·2 per cent in 1965-66 to 12·4 per cent in 1967-68 is likely to have risen to 12·8 per cent in 1968-69. This proportion is expected to rise to about 13 per cent in 1969-70 as the total tax revenues of the central and state governments budgeted for 1969-70 represent an increase of about 8 per cent over the revised figure for 1968-69.

Centre-States Financial Relations

The total deficit financing by the central and state governments including Reserve Bank's transactions in long-dated securities had aggregated Rs 224 crores in 1967-68 and Rs 269 crores in 1968-69. For 1969-70 the budgeted deficit was Rs 254 crores at the centre and Rs 266 crores in the case of the states. The actual deficit financing by the central and state governments taken together, however, is likely to be substantially smaller, having regard for the recent trends in receipts and expenditures as well as for the fact that in view of the proximity at that time to the award of the fifth Finance Commission some of the state governments might have tried to over-state their expenditures and/or under-state receipts. The fact, however, remains that the financial position of some of the states has continued to exercise concern and during the current year also there has been persistent recourse to unauthorised overdrafts with the Reserve Bank. The central government had, therefore, to sanction special assistance of Rs 102 crores in order to enable three states to clear their overdrafts with the Reserve Bank.

In the context of centre-states financial relations the announcement of the fifth Finance Commission award was a major event in the current year. The recommendations of the Finance Commission, accepted by the central government, involve a total transfer of Rs 4266 crores over the five-year period. Of this Rs 3628 crores would be by way of a share in central taxes, including Rs 81 crores on account of a grant in lieu of the tax on railway passenger fares, and Rs 638 crores of grants-in-aid. On latest indications, the total transfer of resources to the state governments would be somewhat higher than the figure estimated by the Finance Commission.

Borrowing Programme

The financial gap in the resources of the central and state governments was estimated at Rs 2266 crores for 1969-70 of which Rs 714 crores were to be met by external assistance (net), and the rest from domestic capital receipts including deficit financing. Receipts from external assistance are now expected to be smaller than what was visualised at the time of the budget. On the other hand small savings are expected to do better, as in the first seven months of the current year their level is higher by Rs 9 crores than in the corresponding period last year. The borrowing programmes of the central and state governments and of the state government enterprises have been a marked success, partly due to relatively larger support from the nationalised banks. The central government floated two loans, 5¼ per cent 1999 loan and 4¾ per cent 1976 loan. The total subscription amounted to Rs 535 crores of which Rs 207 crores were by way of cash and Rs 328 crores by way of conversion. Allowing for repayments of market loans estimated at Rs 397 crores, the net central government borrowing in 1969-70 amounted to Rs 138 crores and showed an improvement of Rs 35 crores over the budgeted figure. Similarly, the subscription of Rs. 171 crores accepted in the case of loans, floated by 15 state governments was Rs 28 crores more than what was assumed in the annual plan discussions with state governments. The state electricity boards were also able to borrow from the market as much as Rs 66 crores as against Rs 34 crores in 1968-69. If the borrowings of state housing boards and transport corporations are taken into account, the total borrowing by the public undertakings of state governments would amount to Rs 80 crores for 1969-70.

While the response to market borrowing this year has been encouraging and appreciably better than envisaged at the beginning of the year, mention must be made of some of the special factors in operation and of a few disquieting features regarding the market for government securities. As already noted, private investment activity remained subdued during the year; and the banks enjoyed rather favourable liquidity conditions on account of the gain in foreign exchange reserves. There is reason to believe that unlike in the past few years when the Reserve Bank of India was a net seller of government securities, it might emerge as a net buyer this year. While it was possible this year, with the support of the nationalised banks, to float state government loans in a more orderly manner without any discounts or sales immediately after purchase, the relative attractiveness of central government securities vis-a-vis state government and other approved secutities seems to have declined somewhat. There is, therefore, continued need to widen and strengthen the market for government securities in general.

Working of Public Undertakings

The budgets of Railways and Post and Telegraphs for 1969-70 had revealed that both these central departmental undertakings would be able to balance their current budgets. While the Railway budget for 1969-70 did not provide for any increase in the railway freights and fares, increases had been effected in postal charges and telephone tariff, which were estimated to yield Rs 6 crores in 1969-70. It may be recalled that both these undertakings have been incurring losses during recent years. The Railways had incurred a deficit of Rs 31 crores in 1967-68 and of Rs 10 crores in 1968-69 (RE). Similarly the P & T's deficit had amounted to Rs. 14 crores in 1967-68 although its deficit in 1968-69 (RE) was nominal.

Regarding its non-departmental public undertakings the central government has already taken a number of measures in pursuance of the recommendations made by the Administrative Reforms Commission. These measures aimed principally at strengthening the autonomy of these undertakings and improving their operational efficiency. Nonetheless, the financial returns of a large number of undertakings are still unsatisfactory. The latest available annual report on non-departmental undertakings of the central government relates to 1967-68. The total investment by way of equity and loans in these undertakings stood at Rs 3333 crores at the end of 1967-68 of which Rs 3029 crores were contributed by the central government. The financial results of the 55 running concerns with a total investment of Rs 3093 crores disclose a net loss of the order of Rs 35 crores for 1967-68. However, Hindustan Steel alone, with a total estimated investment of Rs 1084 crores incurred a loss of Rs 38 crores in that year; but if its operations are excluded the remaining 54 running concerns would show a total net profit of Rs 3·3 crores in 1967-68. Of these 31 concerns showed net profit amounting to Rs 48 crores while 23 showed losses amounting to Rs 45 crores. The concerns suffering losses included four giant engineering concerns *viz.*, Heavy Engineering, Heavy Electricals, Bharat Heavy Electricals and Mining and Allied Machinery Corporation which between them accounted for a total loss of Rs 29 crores in 1967-68. The gross profit of these 54 running concerns during 1967-68 amounted to Rs 68 crores, after providing for depreciation but without a deduction of interest. On a capital employed of Rs 1748 crores, this reveals a rate of return of 3·8 per cent for 1967-68 as against 3·9 per cent for

1966-67. However, the profitability ratio (i.e. gross profit as per cent of capital employed) during 1967-68 was as high as 24.2 per cent for the Indian Telephone Industries, 23·9 per cent for the Bharat Electronics, 15·8 per cent for the Hindustan Antibiotics and 11·7 per cent for the Hindustan Insecticides. Available information for 1968-69 indicates that the profits of running concerns, other than Hindustan Steel, were higher than in the previous year, and the ratio of gross profits to capital employed in these concerns rose to 4·3 per cent.

The public undertakings of state governments also continue to yield inadequate returns. For instance, the total net loss on the commercial irrigation works and multi-purpose river schemes is estimated at Rs 100 crores for 1969-70. Both in the draft of the fourth Plan and in the final report of the fifth Finance Commission, a good deal of attention has been given to the necessity of making suitable adjustments in the water and power rates in order to mobilise additional resources. It may be stated that among its various recommendations regarding the scope for raising additional resources by state governments, the fifth Finance Commission has drawn particular attention to the need for taxing the prosperous part of the agricultural sector which, according to the Commission, is undertaxed.

Domestic Savings

The rate of domestic saving is estimated to rise from about 8 per cent of national income in 1968-69 to about 9 per cent of national income in 1969-70. The development process as visualised in the draft of the fourth Plan postulates that the dependence on external assistance has to be reduced. In other words, a far greater reliance than hitherto on domestic saving effort is envisaged. In this process, the budget naturally occupies a pivotal role in generating saving and sustaining a higher level of investment in the economy. Restraints will have to be applied vigorously on all non-essential expenditures by both public and private agencies and the full potentialities of the tax system will have to be exploited by both the central and state governments in order to raise adequate resources. Fiscal policy has to be so designed as to reduce inequalities in income and wealth and to remove regional imbalances in the levels of social and economic development. The ratio of public saving to national income is currently in the neighbourhood of 1 per cent of national income. Consistent with the assumptions made in the draft of the fourth Plan the proportion of public saving to national income has to be raised to 3·8 per cent by the end of the fourth Plan and to more than 6·2 per cent by 1980-81. The implication of this for the tax effort is that the proportion of tax revenues to national income has to be stepped up from the current level of 13 per cent to 15 per cent by 1973-74 and 18·5 per cent by 1980-81.

Money Supply and Prices

The sizable increase in money supply which took place in 1968-69 did not have any inflationary effects on the economy. Although national income increased by only 1·8 per cent in 1968-69 there was no general pressure on prices because of the generally adequate food situation and the increase in industrial production by using up existing excess capacity. There was, no doubt, a spurt in the prices of certain commodities such as jute, cotton, oilseeds and coarse grains due to a shortfall in their production. But this could be held under check to an extent, partly through quick imports and partly through selective credit control measures. Secondly, since investment in the economy had not increased appreciably the sharp increase in exports did not lead to a sharp increase in aggregate demand. Lastly, the fact that agricultural output was increasing meant that the rural sector was getting more intimately integrated with the rest of the market economy and that an increased proportion of money was being held for transaction purposes, thus damping the expansionary effect of increases in the money supply. However, the limits of the reserve in the economy are being quickly approached as excess capacity is utilised. If investment is stepped up and exports continue to increase there is greater need for watching the situation with regard to monetary expansion in the coming months. Already, the increase in prices in recent weeks when bank credit also expended appreciably has necessitated a measure of credit restraint.

Monetary and Credit Policy

Since August 1967 the main emphasis of monetary policy has been on selective credit liberalisation to the priority sectors, viz., agriculture, small-scale industries and exports. The principal elements in the credit policy were mentioned in the last year's Economic Survey. The scope of concessional refinance from the Reserve Bank was further widened in the 1969 slack reason when, the commercial banks were asked to enlarge the flow of credit not only to agriculture and small-scale industries but also to retail trade in rural areas, hire-purchase of taxis, trucks and scooters, and self-employed persons. Banks were also advised to invest their surplus funds in approved securities of bodies like state electricity boards, state finance corporations and land mortgage banks with a view to revive the demand for capital goods industries and provide an added impetus to agricultural and industrial development. The Reserve Bank of India continued to provide, irrespective of a bank's net liquidity ratio, refinance at the concessional rate of 4½ per cent in respect of packing credit for export of metallurgical and engineering goods and at the bank rate in respect of packing and post-

shipment credit for export of other goods. The commercial banks are not allowed to charge more than 6 per cent on their export credit and the central government on its part pays to commercial banks a subsidy of 1½ per cent on such credit. The Reserve Bank continued to provide refinance at bank rate for the priority sectors in respect of the full excess of a bank's net liquidity ratio over the basic minimum of 30 per cent. The system of governing the application of higher interest rates on excess borrowings was also continued as before. The Reserve Bank also provides concessional refinance at 4½ per cent up to an amount equivalent to the total of bank's short-term advances to agriculture and small-scale industries (guaranteed by the Credit Guarantee Organisation). Credit to agriculture includes not only credit for the distribution of agricultural inputs like chemical fertilizers and pesticides but also loans to farmers for purchases of tractors, power tillers etc. It also includes finance for the development of fisheries, dairies, cold storages etc. Packing and post-shipment advances to exporters of goods other than metallurgical and engineering goods and advances to state governments/their agencies and the Food Corporation for food procurement storage and distribution, are eligible for refinance at the bank rate, irrespective of a bank's net liquidity ratio. Discretionary refinance at the Bank Rate, or at penal rates (as determined on the basis of net liquidity rates) continues to be available to the banks in order to enable them to tide over their temporary difficulties of liquidity.

Selective Credit Controls

At the same time, selective credit controls have been exercised as necessary. Controls on advances against vegetable oils and oilseeds were tightened further in May, 1969, in view of the difficult supply situation and rising prices. In the same month, control over raw cotton and kapas had also to be tightened in view of the abnormal increase in prices. In both cases, minimum margins were raised and credit ceilings were reduced. On the other hand in September 1969 due to the improvement in the supply position of raw jute, the Reserve Bank withdrew the credit control imposed earlier on raw jute and jute goods in the context of the poor jute crop of 1968-69. However, in view of the growing demand and price pressures on certain agricultural commodities, the Reserve Bank has recently taken measures to tighten its control on bank advances against oilseeds, oils, cotton and foodgrains. The minimum margins on advances against oilseeds and oils have been raised from 50 per cent to 60 per cent in the case of traders and from 40 per cent to 60 per cent in the case of oil mills and vanaspati units. In the case of cotton and kapas, a margin of 40 per cent has been imposed on advances to cotton mills and the margin has been raised from 50 per cent to 60 per cent in the case of parties other than cotton mills. In the case of foodgrains, the minimum margins have been raised to a uniform 60 per cent. Simultaneously ceilings on the levels of advances of individual banks against these commodities have been reduced. Also, in order to reinforce the impact of these control measures the Reserve Bank has prescribed a minimum rate of interest of 10 per cent on advances against foodgrains, oilseeds, vegetable oils including vanaspati and cotton and kapas. The ceiling rate of 9½ per cent on interest on advances by Indian scheduled commercial banks with demand and time liabilities exceeding Rs 50 crores and foreign banks operating in India has been withdrawn. On the other hand, the Reserve Bank has withdrawn its control on bank advances against gur in view of the improved supply position of that commodity.

Mention may also be made of further measures taken by the Industrial Development Bank of India to extend selectively its direct assistance to the public sector and to assist exports. The IDBI now considers on merit applications for direct financial assistance for purposes of expansion and diversification from such companies in the public sector as have declared at least a maiden dividend, have resources to finance part of the new programme and do not resort to the government for any finance. The IDBI's indirect assistance to public sector projects is already available under its scheme of rediscounting of machinery bills. Similarly, the industrial concerns in the public sector are eligible under IDBI's scheme of refinancing of medium-term export credit. Mention may also be made of a new scheme introduced by IDBI for providing direct term credit to exports of capital and engineering goods at a concessional rate of interest, in collaboration with commercial banks. The IDBI already provides, at a special concessional rate of 4½ per cent, refinance of loans to small-scale industries covered under the Credit Guarantee Scheme. Further to encourage the growth of industries in the relatively backward areas of the country, the IDBI has now decided to give financial assistance on softer terms to deserving small and medium industrial projects located there.

Nationalisation of Banks

A most significant event in the field of money and banking was the nationalisation of 14 major commercial banks, with deposits of Rs 50 crores and above, on July 19, 1969. As a result of this action the public sector has acquired a vital control over the principal financial institutions in the economy for mobilising savings and channelling them towards productive purposes. Together with the State Bank of India nationlised banks control about 83 per cent of the total deposits of the banking system and about 80 per cent of all bank branches in the country. This control over such a large part of the organised credit market, together with the control which the government already has over insurance and long-term financial institutions, should provide the public sector with important levers for mobilising as well as utilising the community's savings to achieve the objectives of social and economic development according to priorities laid down in the five year Plans. To direct the flow of credit to sectors hitherto neglected, the nationalised banks have already formulated schemes for providing credit to the self-employed, the educated unemployed, retailers, road transport operators, small farmers etc. government is also considering the introduction of a comprehensive scheme of insurance to cover risks involved in granting loans to various categories of small borrowers. In short, the lending policies of the nationalised banks are being reoriented with a view to changing the basis for extension of credit from credit-worthiness of persons to credit-worthiness of activities. The banks have also been advised to pay greater attention to the needs of the less developed and under-banked states. The Reserve Bank has also recently issued a directive to the custodians of the nationalised banks requiring them to seek Reserve Bank's prior approval before putting through certain transactions which include grant of advances in excess of certain amounts, appointment and extension of services of senior executvies and making appropriation out of profits.

As a result of the various measures taken by the Reserve Bank, commercial banks had stepped up credit to priority sectors. Thus between end-June 1968 and end-June 1969, total outstanding credit rose from Rs 45 crores to Rs 188 crores in respect of agriculture, from Rs 194 crores to Rs 294 crores in respect of small-scale industries and from Rs 174 crores to Rs 255 crores in respect of exports. However, both the All India Credit Review Committee and the Gadgil Committee on Organisational Framework for the Implementation of Social Objectives have again brought to the fore the uneven distribution of bank credit and the existence of serious credit gaps in the economy. The Report of the All India Credit Review Committee submitted in July 1969 makes basic recommendations in order to eliminate the structural weakness in the co-operative credit system and to cater to the needs of the weaker sections of cultivators. It has recommended the establishment of small farmers' development agencies, the setting up of a rural electrification corporation and the laying down of a promotional role for the Agricultural Refinance Corporation. Government has accepted these recommendations and small farmers development agencies are sought to be established in 45 selected districts in different states, with the purpose of identifying the problems of small but potentially viable farmers and of ensuring availability of inputs, services and credit through the various credit institutions.

Credit Reorientation

The Study Group on Organisational Framework for the implementation of social objectives has also examined the nature and extent of credit gaps in the economy and recommended greater involvement by commercial banks in financing the needs of agriculture. The question of financing primary credit societies by nationalised banks is being discussed with state governments. Meanwhile the Reserve Bank has already initiated its 'Lead Bank Schemes' and has also outlined its programme of branch expansion during January to June 1970. Under the 'Lead Bank Scheme' banks have been allotted specific districts in which they would take the lead in surveying the potential for banking development, in extending branch banking and in expanding credit facilities. The programme of branch expansion for the period January to June 1970 visualises the opening of a minimum of 400 offices in unbanked centres and another 200 offices in centres which already have some banking facilities.

Although the average level of prices during 1969 was only slightly higher than that during

TABLE VI

YEARLY AVERAGE OF THE INDEX NUMBERS OF WHOLESALE PRICES

Annual Variations (Percentage)

	1966	1967	1968	1969
All commodities	+1·9	+15·0	—0·5	+2·1
Food articles	+14·0	+26·3	—1·9	—3·7
Liquor & tobacco	—0·1	+8·8	+22·9	+13·8
Fuel, Power, light and lubricants	+8·3	+5·5	+5·3	+4·1
Industrial raw materials	+18·9	+6·1	—5·2	+14·9
Chemicals	+12·8	+11·5	+6·9	+9·4
Machinery and transport equipment	+6·9	+5·6	+0·9	+1·8
Manufactures	+8·8	+4·3	+1·4	+6·2

1968 there was considerable pressure on prices during the year. Wholesale prices rose sharply between February and July 1969 but declined appreciably between August and mid-November. There has been renewed pressure since then. The price situation during the year was affected by the reduced availabilities of certain essential agricultural commodities as well as by the relatively faster growth of demand. The yearly average of the index number of wholesale prices (1961-62=100) stood at 168·7 for 1969 and was 2·1 per cent higher as compared with the yearly average of 165·3 for 1968. However, the monthly average of wholesale prices during January 1970 stood 6·8 per cent higher than the level a year ago.

Price Policy

It became necessary, therefore, to take various measures in the course of the year to deal with the price situation. These included imposition of credit controls by the Reserve Bank as in the case of raw cotton and vegetable oils and oilseeds, arrangement of larger imports of raw cotton and soyabean oil, fixation of monthly purchase quotas by mills for raw jute and restrictions on the holding of stocks of raw cotton with mills. More recently, the Reserve Bank has taken further steps to tighten the control on bank advances against oilseeds and oils, cotton and kapas and foodgrains, details of which have been given earlier in the survey.

In the field of price administration, a major endeavour of government policy has been to maintain a framework of price stability. Government decided to maintain the minimum statutory price of sugarcane for the 1969-70 season at the same level as for the 1968-69 season. Similarly, the support prices for raw cotton and raw jute were left unaltered at their 1968-69 levels. Government also decided to continue its policies of partial decontrol of sugar and cotton cloth. In sugar the success of the policy of partial decontrol was evident from the fact that the open market prices of sugar at the end of December, 1969 were ruling about 50 per cent lower than their preceding year's levels. On the other hand, government has been intervening to hold the price line wherever necessary. Thus, in September 1969 government decided to bring under statutory control prices of passenger cars. In December 1969 prices of synthetic rubber were subjected to statutory control. In view of the rubber shortages, it was also decided to bring tyres and tubes of all categories of automobiles within the purview of the Essential Commodities Act; previously, only tyres and tubes of cars and tractors were being treated as essential commodities. Government has also been trying to restrain the prices of vanaspati by trying to arrange for the industry adequate supplies of imported soyabean oil; 43·4 thousand tonnes of soyabean oil were imported during 1968-69 and it is proposed to import 93 thousand tonnes during 1969-70.

Balance of Payments

India's balance of payments became even more favourable in 1968-69 as compared to 1967-68, due to a reduction in import payments and a substantial increase in export earnings. Over the year, there was an accretion to foreign exchange reserves of Rs 48·1 crores after making a repurchase of Rs 38·3 crores from the International Monetary Fund. The overall improvement in the reserves position was thus Rs 96·6 crores. This was a substantial improvement on the increase, on a similar basis, of Rs 35·8 crores recorded in 1967-68 and the loss in reserves of Rs 88·5 crores witnessed in 1966-67. The improvement noticed in 1968-69 has continued through the current year and foreign exchange reserves at the end of January 1970 are estimated at Rs 671 crores, showing an increase of Rs 95 crores over the first ten months of the current fiscal year, even after a repurchase of Rs 119·6 crores from the IMF. A further sum of Rs 5·6 crores is due for repayment before the end of the year and when this is made, India's short-term indebtedness to the IMF which amounted to Rs 387·5 crores at the end of 1967-68 would come down to Rs 153·8 crores at the end of 1969-70, showing a considerable improvement in India's liquidity position with the IMF. The allocation of the Special Drawing Rights of Rs 94·5 crores in January 1970 has similarly had a favourable impact on India's liquidity position.

External Assistance

The total amount of external assistance available during 1968-69, comprising aid in the pipeline (Rs 2070 crores) and fresh authorizations including aid in the form of debt rescheduling/postponement (Rs 804 crores), amounted to Rs 2,874 crores. This was considerably less than Rs 3,271 crores available during 1967-68 and reflected the tapering of aid in the pipeline due to a sharp drop in fresh commitments during 1967-68. Fresh authorizations during 1968-69 at Rs 804 crores were even lower than the authorizations of Rs 900 crores in 1967-68. If, however, food and PL 480 assistance are excluded, authorizations for 1968-69 amounted to Rs 623 crores as compared to Rs 582 crores in 1967-68. The increase was due to an IDA non-project credit of Rs 94 crores ($125 million) and US assistance for the Trombay fertilizer project and for the purchase of two jumbo jets.

The Aid India Consortium which met in May 1969 agreed that India needed substantial new commitments of non-project as well as project aid if the general recovery of the economy was to be maintained and consolidated. It was also agreed that for the year which began on April 1, 1969, India required non-project assistance of about Rs 525 crores ($700 million) including approximately Rs 75 crores ($100 million) in the form of debt relief. India's need for increased project assistance as an essential complement to non-project aid was also recognized and Consortium members agreed that India's request for Rs 300 crores ($400 million) was reasonable and that efforts would be made to meet it. Preliminary data show that Rs 137 crores ($209 million) of non-project aid including debt relief was authorised up to the end of January 1970; project aid of Rs 180 crores ($240 million) has also been authorised.

The pipeline (amounts authorised less amounts disbursed) of project and non-project assistance started to decline in 1967-68. From a level of Rs 2,199 crores at the beginning of the year it fell by Rs 300 crores to Rs 1,899 crores at the end of the year. The pipeline of aid declined further by Rs 82 crores during 1968-69 and on 1st April 1969 it amounted to Rs 1,817 crores, comprising of Rs 1,200 crores of project assistance and Rs 617 crores of non-project assistance.

The aid utilised during 1968-69 amounted to Rs 896 crores. This was Rs 298 crores lower than in 1967-68. A decline in food assistance from Rs 330 crores in 1967-68 to Rs 186 crores in 1968-69 accounted for Rs 144 crores. The balance was accounted for by a decline in non-food aid from Rs 864 crores in 1967-68 to Rs 710 crores in 1968-69. Disbursement of non-project aid in 1968-69 amounted to Rs 411 crores while project aid was Rs 272 crores. Project aid was marginally lower in 1968-69 as compared to the preceding year; but non-project assistance utilised was lower by 18 per cent, reflecting a smaller authorisation in the previous year.

Debt Servicing

Total debt service charges rose from (post-devaluation) Rs 143 crores in 1961-62 to (post-devaluation) Rs 227 crores in 1965-66. These payments increased further to Rs 333 crores in 1967-68 and Rs 375 crores in 1968-69. Debt service payments will continue to be heavy during the next few years and are estimated to be around Rs 412 crores during 1969-70. The effect of this increase (and of reduced authorisations) has been a sharp reduction in net aid received. In 1966-67 and 1967-68 it amounted to Rs 860 and Rs 861 crores respectively; in 1968-69 it was only Rs 521 crores. If allowance is made for specially large food imports during the past years, net aid excluding food aid drops sharply from Rs 531 crores in 1967-68 to Rs 335 crores in 1968-69.

The economy could manage with such low volumes of net assistance because of the slack in the economy and relatively low volume of investment activity during the recession and the immediate post-recession years. With the revival of industrial activity the need for both

TABLE VII

INDIA'S FOREIGN EXCHANGE RESERVES

(Rs crores)

At the end of	Foreign exchange reserves	Variation over the previous year/period[1]	Net drawings on (+) repayments(—) to IMF	Overall variation in reserves position net of transactions with IMF (3—4)
1	2	3	4	5
1966-67	478·4	+9·0	+97·5	—88·5
1967-68	538·6	+60·2	+24·4	+35·8
1968-69	576·7	+38·1	—58·5	+96·6
January 1970[2]	671·0	+94·3	—119·6	+213·9[3]

1. Inclusive of transactions with IMF shown in Col. 4
2. Estimate.
3. Exclusive of SDR allocation of Rs 94·5 crores.

maintenance imports as well as capital goods imports would increase. Already, as pointed out above, select items of maintenance imports have gone up and scarcities are developing in some sectors. The licensing for imports of raw materials, components and spare parts has gone up by about 30 per cent in the first seven months of this year. And as the present tempo continues there is no doubt that imports would go up still further. Particularly, if the investment proposed in the fourth Plan in fields like fertilizers, petrochemicals, metals, ports and power is to take place, the need for both project and non-project assistance will increase. The existence of a diversified machinery-making industry would mean an increase in the need for non-project assistance to meet the increased demand for capital equipment. Also the machine making capacity built up is not large enough to meet all the requirements of development in the fourth Plan. Therefore, there is an urgent need for project assistance as well.

Debt service payments this year amount to about 30 per cent of expected exports. This is a really high proportion and affects greatly the country's capacity to import. Further aid receipts should not contribute to increase this proportion. There is, therefore, a need to reiterate the proposition that aid should be on softer terms. While there has been a general movement in this direction, through extension of maturity periods and lowering of the rates of interest, the requirement that PL 480 assistance should be repaid in foreign currency is a step in the other direction. The debt relief granted by Consortium countries, which amounted to Rs 76 crores ($ 101 million) in 1968-69 has been useful in this regard.

At the end of 1969-70, the first year of the fourth five year Plan, the economic situation in the country is generally favourable. The higher production in agriculture in 1969-70 and the larger stock with government will make for improved availability of foodgrains for the major part of the coming year. This will also be true of jute and sugar and to a smaller extent of cotton and vegetable oils. By and large, the supply of industrial consumer goods may be expected to increase appreciably. In selected commodities such as oilseeds, cotton, iron and steel, staple fibre and non-ferrous metals where shortages are in evidence, it would be necessary to augment domestic supplies by larger imports. In view of the striking improvement in the reserves position, the usual constraint on augmenting domestic supplies by imports should not operate during the coming year. Altogether, the specific supply bottlenecks which were witnessed in a number of items this year are less likely to appear in the coming year.

On the other hand, there is a clear need for increasing developmental outlays both in the public and the private sectors. A significant step up in Plan outlay in the second year of the Plan is clearly called for if the targets envisaged in the fourth Plan are to be realised. In addition to raising investment outlays proper, public sector developmental activity also needs to be accelerated in a number of fields. The buoyancy of private investment in agriculture, small industries and construction needs to be sustained. Higher investment activity in the public sector will also stimulate private investment in organised industry. Indeed, given the substantial contribution that private organised industry makes to total production in the country, it would be necessary to ensure that the growing interest in private industrial investment which has already been in evidence is encouraged. Demand for inventories will also grow with the growth of agricultural and industrial production. Larger farm incomes on account of the better harvest and larger industrial incomes due to increased industrial production will mean increased consumer spending not merely on items like food and clothing but also on consumer durables like radios, bicycles, electric fans, etc. As every effort will have to be made to secure higher export earnings there would be an additional pressure of demand from this sector as well. In view of the very large increase in money supply that has taken place in the current year, the possibility of some pent up demand asserting itself cannot also be ruled out.

The prospects for 1970-71, therefore, are clearly for a significant increase in both supply and demand. The process of development inevitably entails movement forward towards equilibrium between supply and demand at higher and higher levels. In the context of the recent upward pressure on prices, it cannot be taken for granted that the increase in supply next year will match the increase in demand, without the aid of conscious policy measures. Apart from a freer use of imports which is fortunately now possible, both budgetary and credit policies will have to be actively deployed to keep aggregate demand within the limits set by available supplies so that the environment of relative price stability is maintained.

Efforts at Increased Production

Conscious efforts will also be needed to bring about a sizable increase in production in the near future. Agricultural supplies in the latter half of 1970-71 would depend on the prospect for the next kharif crop about which nothing can be said now. But irrespective of weather conditions, every effort must be made to step up fertilizer consumption, to extend the area under high-yielding varieties and to make the maximum possible use of available irrigation facilities. Substantial increases in industrial production can also be achieved in the short run by better labour-management relations and greater attention to technical and managerial improvements, particularly in the steel and fertilizer industries where the need for higher production is urgent.

There is every likelihood of a significant increase in imports next year. Import licences for raw materials and components already issued this year have been running 20 to 40 per cent higher than in 1968-69 and this step-up will be reflected in higher imports next year. In addition, as already mentioned, larger imports of some bulk commodities on a selective basis are both necessary and feasible in the present circumstances in order to supplement domestic supplies. While exports should resume the upward trend once again, the chances are that the deficit on trade account in 1970-71 would be somewhat larger than in the current year. There is likely to be no material change in regard to disbursement of aid so that on balance the net accretion to reserves next year should be much smaller than in the current year. Despite the substantial improvement in regard to foreign exchange reserves, the present level of reserves cannot be considered adequate, particularly in the light of the large repayment obligations to the International Monetary Fund. Some improvement in reserves during 1970-71 is, therefore, called for. At the same time, if the situation so warrants, there should be no hesitation in using reserves precisely for the purpose for which they are intended, namely, to maintain the climate of growth with stability in the face of adverse but temporary repercussions on the balance of payments. Altogether, the prospects of maintaining such a climate during 1970-71 are reasonable.

TABLE VIII

INFLOW OF FOREIGN ASSISTANCE: GROSS AND NET

(Rs crores)*

Items	1966-67	1967-68	1968-69	1969-70 (Apr.-Sept.)†
1	2	3	4	5
I. Gross aid disbursement ..	1134	1194	896	485
of which :				
(a) PL 480 Food Aid**	338	285	131	84
(b) PL 480 Non-food Aid** ..	22	57	77	35
(c) Other food aid	70	45	55	12
II. Gross aid excluding food aid ..	726	864	710	389
III.(a) Amortisation payments	160	212	236	133
(b) Interest payments ..	114	121	139	72
Total debt servicing	274	333	375	205
IV. Net aid flow	860	861	521	280
V. Net aid flow exclusive of food aid ..	452	531	335	184

* In post-devaluation rupees.

†Provisional.

**Include assistance by way of the rupee value of imports and under convertible currency credits. Gross aid disbursements take into account debt relief inclusive of debt rescheduling/postponement, etc. Debt service payments relate to those involving foreign exchange.

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Registered with the Registrar of Newspapers
for India under No. R. N. 535/57

Printed and Published by R. P. Agarwala on behalf of the Eastern Economist Ltd., United Commercial Bank Building, Parliament Street, New Delhi, at the New India Press, Connaught Circus, New Delhi.
Editor : V. Balasubramanian Registered at the G.P.O., London, as a newspaper

EASTERN ECONOMIST

RUPEES 1.50 MARCH 20, 1970 VOL. 54

If we are to provide soon, as we must, to all the citizens of India at least a minimum of nourishment, clean drinking water, public transport, housing, clothing, medical care and education—in short, to improve the standard of living—we must go ahead with rapid industrial development. It will provide larger employment for the masses of the people. It will promote exports which will help import of capital goods and technology and repay our debt obligations. It will facilitate import substitution. Greater production alone will help us fight poverty, unemployment and inflation.

—RAMNATH A. PODAR

What's this fellow doing here?

EASTERN ECONOMIST

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TO BE AGREEABLE IS NOT ALL

THE EDITOR

It is possible that 1972 may be nearer politically than it is chronologically. Not unnaturally, then, the government chooses to lie low and the business community even lower. With uncertainties abounding, the Prime Minister needs friends where-ever they are to be found and so do businessmen. The subdued tone and tenor of the inaugural proceedings of the annual session of the Federation of Indian Chambers of Commerce and Industry (FICCI) last week was a product of this compulsion; the president of that more or less august body was painstakingly conciliatory and the Prime Minister loftily polite.

If the FICCI's posture tended to be a little more subdued than that of the government, this, again was not surprising. The business community knows only too well that, while Mrs Indira Gandhi is impatient of criticism from any quarter, she is specially apt to see red if the faintest whisper of a contrary word were to be uttered by any of its spokesmen. Where businessmen are concerned, the Prime Minister seems, in fact, to be almost always nervously suspicious of conspiracies of confrontation.

In spite of this, if she chose to be (or could be put) at relative ease at this annual session of the FICCI, it was, as was noted earlier, a consequence of the political context. The outgoing president, Mr Ramnath A. Podar, is no doubt a business leader of clear and firm views, but he is, at all times, a soft-spoken man and it was only to be expected, therefore, that, on this occasion particularly, he would breathe no phrase that might touch a raw nerve anywhere. Thus, while expressing concern over the steep rise in wealth tax and personal taxation in the central budget, he was careful enough to preface this observation with a tribute to the budget for seeking "to stimulate the investment climate". Mr Podar did not, of course, stop to explain how a body of direct tax proposals which in his own words, "may not leave sufficient savings in the hands of entrepreneurs and investors to invest in new industries" could do anything to the investment climate except depress it.

Mr Podar was equally soft in discussing controls and licensing. He noted that the business community had, by now, gained long experience of this regulatory machinery and yet this experience seems to have merely made it possible for Mr Podar to inquire, in innocent wonderment, "whether this mechanism has produced the best results." Referring to the political threat of a government take-over of trade and commerce, Mr Podar, again, was very properly gentle in his pleading which hardly amounted to a protest at any point.

It was, however, in dealing with the damage inflicted on the national economy and the danger posed to the business community by subversive political activists that Mr Podar really scaled the heights of non-confrontation with the government. After referring to the chaotic and even critical situation in West Bengal, the out-going president of the Federation merely contented himself with making the suggestion to the "respected Prime Minister" that she should "request the chief ministers of all the states and the authorities in the centrally-administered areas to give their personal attention to this very important matter of law and order". Whether the Prime Minister should speak to the chief ministers—West Bengal, incidentally, has none at present — on the trunk telephone or whether it would be enough if she were merely to write to them, Mr Podar forgot to specify.

It would be wrong, however, to be hyper-critical of Mr Podar for under-playing either the seriousness or the sharpness of the problems which have been created for the business community by the politics of the ruling party or the policies of the central government. Far too many businessmen seem to be only too willing right now to let sleeping political dogs lie. They seem to believe that time is on their side and that even as this land of ours and such philosophy as it has have managed to survive through the strains of centuries, they and their community may hope to live beyond the passing political storms of the day by stooping sufficiently to survive. Mr Podar, it could be assumed, was only giving expression to this possibly dominant mood of the business community and if there are minority views or sentiments, it must be said to the credit of the FICCI that the proceedings of the annual session did leave some scope for their expression. It was, indeed, clear from the discussions on the specific resolutions before the session that the think-

ing in some sections of the business community was far less conciliatory towards the political programmes of the ruling party or the policies of the government than the sentiments which had found ceremonial expression in the out-going president's discussion of or references to the government's basic attitudes relating to the industrialisation of the country or its particular approach to business, particularly big business so-called.

Incidentally, it is an eloquent commentary on the conformity which seems to be the keynote of a good part of the business community's studied policy of non-confrontation with the central government at the present time that, in all the discussion that there has been recently, whether at this session of the FICCI or on other occasions, there has not been one bold word of protest against the manner in which the Ministry of Industrial Development stubbornly continues to function. Mr Fakhruddin Ali Ahmed was among the honoured guests on the podium when this annual session of the FICCI was inaugurated and he was sitting next to the incoming president, Mr D.C. Kothari, who was sitting on the right of the Prime Minister. I do not grudge Mr Ahmed the deference that must be shown to his position in the government, but I wonder how many businessmen are really happy over the thought of Mr Ahmed becoming a permanent fixture in the Ministry of Industrial Development. Between him and his Minister of State, Mr Raghunatha Reddy, this ministry has become the burial ground of projects or proposals for new industries or the expansion of existing units.

It is indicative of the basically obstructive attitudes of this ministry that even the new industrial licensing policy, which is alleged to have liberalising intentions, is now being widely feared to be restrictive in its real import. Far from clarifying the directions now sought to be set for the regulatory machinery of licensing, this policy statement has only served to spread confusion about the manner in which this machinery may function in the future so much so that suspicion has been aroused about the motivations and purposes of the central government generally and the Ministry of Industrial Development in particular. In the circumstances, it is difficult to believe that the business community has nothing to say in criticism of the performance of this ministry and since nothing has been said on this subject at the session of the FICCI, it can only be because of the prevailing demoralisation in the ranks of businessmen or rather their leadership.

Not that the Prime Minister needs to be told what a frustrating Old Man of the Sea this ministry is, thanks to the two ministers who have made it the instrument of their political purposes and prejudices. Mrs Indira Gandhi is only to compare the record of this ministry as it is functioning under Mr Fakhruddin Ali Ahmed and Mr Raghunatha Reddy with the achievements of the comparable ministries which were led by Mr T.T. Krishnamachari or Mr Manubhai Shah or even Dr T.N. Singh. Many factors have been blamed for the slowing down of industrial expansion in recent years and one of the main explanations for this sorry state of affairs certainly is the deliberate negativism which is being practised by the Minister for Industrial Development and his Minister of State.

The Prime Minister at least seems to have some desire for industrial expansion and increased production and it has, indeed, been reported that, from time to time, she has been suggesting to Mr Ahmed that he might move to some other ministry. It is sincerely to be hoped that, when Mrs Gandhi next feels strong enough to make major changes in her cabinet, she will find some other assignment for Mr Ahmed which may duly recognise his political value to her but not at the cost of the nation and the economy. It is true that businessmen, whether at the annual session of the FICCI or on other occasions, may find it much more prudent to talk about cabbages and kings than about such difficult and delicate subjects as the Ministry of Industrial Development and it will suit the Prime Minister very well, no doubt, that her meeting with businessmen should be confined to an exchange of sweet nothings, but the country is larger than the business community and its people are greater than the Prime Minister. Let some of us, then, dare occasionally to speak for the country and its people.

A Scheme Long in the Air

ONE OF the most striking features of the emerging green revolution has been the upward curve of the demand for chemical fertilizers. This development has at least two important implications. The first is that more and more farmers are becoming acquainted with the technology of scientific agriculture. The second is that more and more farmers are coming to regard farming as a commercial proposition than as a meagre means of mere subsistence. It is consequently of the greatest importance to the nation that everything should be done to maintain and improve upon the tempo of the agriculturists' response to the fertilizer programmes of the new agricultural strategy.

From this point of view, our experience of the 1968-69 crop year has not been quite satisfactory. Whereas the demand for nutrients had increased by 40 per cent in each of the years, 1966-67 and 1967-68, the annual rate of growth slowed down subsequently to about 15 per cent. As a result, the central government has taken a decision to curtail imports. However, there has already been an accumulation of surplus stocks large enough to cause serious embarrassment to domestic manufacturers.

The Economic Survey for 1969-70 has referred to this situation. It has attributed the slowing down of the growth of consumption of fertilizers in 1968-69 to three factors. One of them was the unfavourable weather conditions in states such as Tamil Nadu and Gujarat. The remaining two relate to the marketing situation. State governments have been adopting a number of restrictive practices which have prevented the free movement of fertilizers from factories to consuming points, especially in the case of inter-state trade and distribution. This apart, the smaller farmers, in particular, have not been able to mobilise enough cash or credit for investing in fertilizers. The survey notes that attempts are being made to take care of these problems. The trade in fertilizers has been delicensed so that there is free movement and anyone may deal in them. It is believed that this would make for more adequate and timely availability of fertilizers. Secondly, says the Survey, the nationalised banks will be providing more resources to meet the credit needs of the smaller farmers.

It seems to us that the Survey has not cared to go deeply enough into this matter. The excuse that it is only a survey may, no doubt, be pleaded on its behalf. But even so, it has tended to over-simplify the problem to an extent which is not justified by the gravity of the situation. It may be recalled that the Fertilizer Credit Committee of the Fertilizer Association of India, which had studied the subject at some length, took a view of the issue of credit facilities for fertilizers which was far less complacent.

That committee which had for its chairman Mr B. Venkatappiah, now Member of the Planning Commission, reported in February 1968 and, at that time, the nationalisation of the leading commercial banks was a blessing that still belonged to the future. The committee therefore did not have the advantage that the authors of this Survey have

of holding up bank nationalisation as a panacea. In any case, the committee basing itself on the realities of the rural credit situation and the particular needs of the fertilizer trade, recommended that new institutional arrangements be made in the form of a fertilizer credit guarantee corporation to mobilise the large-scale credit assistance that was clearly needed for financing a countrywide programme of carrying chemical nutrients to the smaller holdings of less than five acres which are farmed by nearly three out of every four agriculturists in the land. Are we to infer from what the Economic Survey has said, as well as from what it has not said, that the Government of India is not too enthusiastic about this project and that it has persuaded itself that the nationalisation of 14 leading commercial banks has made it unnecessary for a special credit facility to be established for assisting the progress of the fertilizer programme?

The Government of India, we hope, is really not labouring under any such misapprehension. Even assuming that the nationalised banks are going to follow a dynamic policy of rural credit, such as has not been adopted or even contemplated so far, the need for a fertilizer credit guarantee corporation on the lines recommended by the Venkatappiah committee would still remain. In fact, the more liberal a credit policy for fertilizers the nationalised banks decide to follow, the greater would be the need for a guarantee corporation. This is for the reason that the corporation could make a significant contribution towards stabilising an ambitious fertilizer credit programme through a system of adequate guarantees and counter-guarantees which would marry the requirements of prudent bank financing to the legitimate credit needs of fertilizer distributors, wholesalers, sub-wholesalers or retailers. It is worth noting that the Venkatappiah committee desired that the guarantee corporation should serve distribution agencies in the co-operative sector as well as the private.

The committee reported more than a year ago and although the present government at the centre has been claiming to be acting with a sense of urgency where questions of agricultural expansion are concerned, it has been surprisingly dilatory in making up its mind on the establishment of a fertilizer credit guarantee corporation. It is quite possible that this delay is, in some part, due to inter-ministerial bickerings on the scope of a guarantee corporation. The Finance Ministry, it appears, is toying with the idea of a credit guarantee corporation which would cover not only fertilizers but also a whole range of farm requirements. The Ministry of Food and Agriculture, on the contrary, seems to be against the concept of an omnibus body of this kind. While the Fertilizer Credit Committee was not against the notion of the guarantee corporation taking up a few other responsibilities, in addition to fertilizers, it made specific mention only of pesticides in this connection.

We are inclined to agree with the Ministry of Food and Agriculture that, fertilizers being a relatively expensive input and therefore beyond the resources of small holdings or small farmers, it should be given special consideration, such as can be effectively provided only through an institution concentrating its energies and resources in this single direction. It is possible, of course, that pesticides could be made an additional responsibility of a fertilizer credit guarantee corporation with advantage. But any further extension of the coverage and commitments of a body of this kind might be self-defeating in its results. In any case, the central government would not be justified in allowing this difference of opinion about the scope of the corporation which seems to exist between the Finance Ministry and the Ministry of Food and Agriculture to delay a decision on the main issue any further. For some time now we have been fed on stories of the central government's desire to co-operate with the US government in promoting the constructive and fruitful application of PL-480 rupees to such national uses as the liberalisation of credit facilities for agriculture or the provision of more financial resources for projects such as urban housing. It seems to us that the central cabinet could easily divert to the processing of these proposals some of the energy which it is now spending on Mr Dinesh Singh's mindless diplomatic activity against the functioning of the cultural centres of certain foreign diplomatic missions in our country.

Tea in Bilateral Trade

AN IMPORTANT development in our tea exports is the increasing shipments to countries with whom we have bilateral trade agreements. These are the USSR, other countries of east Europe, the UAR, Afghanistan, Tunisia, Sudan, Iraq and Jordan. According to the Tea Board, the percentage of exports under bilateral agreements to total exports increased from 19.92 in 1960-62 to 30.54 in 1965-67 and to 30.84 in 1968. The trend is given in the table below.

But it appears that the higher exports of our tea to the bilateral countries have been due not to any systematic efforts on our part but because of their anxiety to import more tea from whichever source it is available. Neither the Tea Board nor any other organisation seems to have undertaken a market survey or publicity campaigns in these countries. But the time has come for India to make energetic efforts to step up her tea exports to these countries.

So far, India has been the main source of tea supply for most countries of east Europe. In 1968, for example, out of 23,732,000 kgs of tea imported into Russia, the share of India was 20,775,000 kg and that of Ceylon was only 2,041,000 kg. India has also been the chief supplier of tea to Czechoslovakia, Yugoslavia, East Germany and Hungary. In these countries the share of Ceylon tea has been nil or negligible. But in Poland, Ceylonese tea seems to be

(Quantity in thousand Kg)

Destination	1960-62	1965-67	1968
USSR	11,500	21,066	22,367
Other east European countries	929	4,003	3,506
UAR	16,084	17,723	8,946
Other countries under agreements*	12,075	17,491	29,462
Total under bilateral countries	40,588	60 283	64,281
All other countries	163,139	137,132	144,159
Grand Total (all exports)	203,727	197,415	208,440
Percentage of exports under bilateral agreement to total exports	19·92%	30·54%	30·84%

*Include Afghanistan, Tunisia, Sudan, Iraq and Jordan.

as popular as Indian. In 1968 Poland imported 1,883,000 kgs from India and 1,844,000 kgs from Ceylon. But both India and Ceylon seem to have neglected Rumania and Bulgaria. In fact, our Tea Board does not have, or has not bothered to have any figures regarding the import trade of tea in Rumania.

Among other bilateral countries also, Indian tea seems to be doing well though in Iraq Ceylon tea is more favoured. In 1967, which is the latest year for which our Tea Board has figures, out of Iraq's total tea imports of 14,665,000 kgs, Ceylon's share was 12,855,000 kgs and India's only 1,798,000 kgs. Our position in the UAR has also received a setback in recent months. In 1966-67 we exported to the UAR 18,570 metric tons of tea valued at Rs 118,943,000 but in 1967-68 there was a decline to 14,222 metric tons valued at Rs 92,028,000 and to 10,458 metric tons worth Rs 63,155,000 in 1968-69. This fall was due to competition from Ceylon whose tea exports to the UAR rose from Rs 6,541,000 in 1966 to Rs 24,823,000 in 1967 and Rs 26,055,000 in 1968.

Our success in exporting more to the bilateral countries will depend to some extent upon our ability to increase the imports from them. But even allowing for this factor, it does seem that we can step up our tea exports to these countries to far higher levels than what we have achieved so far. In many east European countries including Russia the living standards are increasing, which offer scope for more tea consumption. The present level of tea consumption in these countries is very low and with appropriate and effective propaganda, it should be possible to increase our sales to them. For instance, Yugoslavia is having a remarkable tourist boom. Thanks to Belgrade's imaginative approach, tourists from all parts of the world are flocking in increasing numbers to Yugoslavia. Why can't our Tea Board utilise this opportunity to push up the sale of our tea to Yugoslavia. It has been suggested that the prospects in this regard are quite encouraging if a tea centre is opened at Drubrovnik, a famous tourist resort and if Yugoslavia is persuaded to buy her tea through the auctions in Calcutta and Cochin. It is stated that the CTC tea can have better sales in Yugoslavia as it has strong liquoring properties. We could also try to introduce tea bags and instant tea into Yugoslavia and other east European countries.

Of late the union Ministry of Foreign Trade has been emphasising the need for finding new markets for our tea. It is now being realised that our excessive reliance on a few traditional markets is not desirable. The countries with whom we have bilateral trade provide good scope for diversifying our tea exports. In this context, it is worth noting China has been supplying more tea to east Europe. In 1967 China supplied 2,522,000 kgs of tea to Czechoslovakia, East Germany, Hungary and Poland compared to 1,665,000 kgs in 1964. The per capita consumption of tea is very low in the countries with whom we have bilateral agreements. For example, the per capita consumption in 1965-67 was 0.30 kg in Russia, 0.09 kg in East Germany and 0.22 kg in Poland. In the same period it was 0.43 kg in Afghanistan, 0.99 kg in Egypt and 0.77 kg in the Sudan.

Our Tea Board and organisations of tea trade and industry should therefore give systematic attention to export promotion to these countries. The Tea Board, of course, should take the initiative. It should conduct intensive market surveys, imaginatively participate in fairs and exhibitions, invite leading importers from these countries to visit our tea gardens, and send out study teams to explore the export prospects. Our embassies in these countries could be asked to take special interest in this task since promotion of tea is easier than many other commodities. Indian tea should get a firm foothold in these markets before new producers such as east Africa make headway there.

The West Bengal Scene

A CORRESPONDENT

I

END OF A NOVEL EXPERIMENT

In his address to the West Bengal Legislative Assembly last month Mr Dhavan, the Governor, referred to the United Front government as "a novel experiment". Now that this experiment has ended, it will be worthwhile to examine some of its novel aspects and their impact on the political and economic situation in West Bengal. Even a tyro in politics could foresee that a cabinet composed of 14 parties who had no common ideology except their hatred of the Indian National Congress could hardly provide efficient administration and sound leadership. Their experience in the previous UF government (1967-68) should have convinced them as well as the people that such a motley crowd of politicians could not function with any reasonable degree of discipline and dedication. Nevertheless, after the mid-term election in February 1969, once again the UF came back into power and its working has produced disastrous results for West Bengal.

The resolution of the Bangla Congress, adopted on March 8, which called upon Mr Ajoy Mukherjee to quit the government, blamed the CPI(M) for breaking the United Front. The resolution referred to the "atrocious, aggressive, high-handed and fascist activities of the CPI(M)". It said, "During the rule of the United Front, unbridled chaos and disturbances have taken place all over the state. The state machinery has become the pathetic onlooker at almost all activities of vandalism and barbarism. The number of murders has increased and many women have lost their honour at the rude and rough cadre of the CPI (M). Looting, arson, rowdyism have become the order of the day. In fact, a reign of terror has been established by the CPI(M) in different parts of the state, including the metropolitan city of Calcutta."

The Bangla Congress is certainly not exaggerating when giving such a lurid picture of the situation in West Bengal. But it is clearly wrong when it throws the responsibility entirely on the CPI(M). The other constituents of the United Front, especially the Bangla Congress which provided the Chief Minister, are also morally and constitutionally responsible for the chaos and misery that prevail all over West Bengal at present.

In fairness to the CPI (M) it must be said that its behaviour in the Ministry has been exactly in accordance with its well known principles. It has never concealed its contempt for the Constitution and has openly expressed its determination to wreck it in all possible ways. The CPI (M)'s attitude to other parties in the United Front has been the same as it was during 1967-68. No one can accuse the CPI(M) of saying one thing and doing another. It should be given credit at least for being consistent in its behaviour.

Love for Power

But the attitude of the Bangla Congress and of Mr Ajoy Mukherjee in particular has been difficult to understand. Mr Mukherjee left the Indian National Congress not due to ideological differences but solely because he did not like some leaders of the syndicate notably Mr Atulya Ghosh. But he did not hesitate to embrace the CPI(M) although he has always had fundamental differences with its policies and methods. In his first phase as the Chief Minister (1967-68), the CPI (M) not only did not co-operate with him but even ridiculed him publicly and insulted him on many occasions. Nevertheless — such is his love fot power—he once again agreed to head the United Front ministry with the same CPI(M) as the dominant partner.

It was an uneasy coalition from the very beginning. There was much wrangling over the distribution of portfolios. The Chief Minister felt unhappy that such a vital department as Home (Police) was in the hands of the CPI(M). Mr Jyoti Basu, on the other hand, did not like that Mr Ajoy Mukherjee, whose Bangla Congress had a strength of only 33 in the Assembly against the CPI(M)'s 80 should head the government. Mr Basu was determined from the beginning to assert his own authority and belittle that of the Chief Minister.

It is interesting to note that soon after the formation of the United Front government the public were shrewd enough to judge that the man who really mattered in the cabinet was Mr Basu and not Mr Mukherjee. Businessmen too realised this fact and acted accordingly. Thus, for example at the annual meeting of the Indian Jute Mills Association held in last April, it was Mr Basu who was the chief guest although as Home (Police) Minister he had little to do with the problems of the jute industry. The chambers of commerce prepared a detailed memorandum on the incentives given by the other state governments for attracting entrepreneurs and handed it over to Mr Basu and not to Mr Mukherjee although he was the Chief Minister in addition to being the Finance Minister. Mr Basu promptly filed the memorandum presumably because he did not want to interfere in the other departments! Whenever factories were faced with the prospects of closure for want of orders or raw materials or due to labour trouble it was to the Home Minister that they looked up for help rather than to the Chief Minister, or the Industries and Commerce Minister or the Minister of Labour.

Mr Basu therefore had reason to feel gratified that the public and the businessmen in particular had correctly and instinctively judged the strength of the CPI(M) in the state s administration. The Chief Minister began to feel uncomfortable that he could not make his influence felt in the government. Meanwhile, the law and order situation both in Calcutta and in the districts rapidly deteriorated. Mr Mukherjee found that although he had been elected as the Chief Minister his authority was steadily slipping away. He felt helpless when he saw that the CPI(M) was ruthlessly using its vantage position to entrench itself in every sphere of administration and to paralyse economic life in the state to gain its political objectives.

Fast Proves a Failure

When the Chief Minister found that his position had become very weak and that, apart from presiding over cabinet meetings, he was not able to exercise any kind of co-ordination or discipline over the ministries, the normal and natural course for him would have been either to resign or to assert his authority and reconstitute the cabinet. But he did neither. He fasted for three days in a public park to draw the attention of the people to the widespread violence that had been let loose in the state and his own helplessness to check it. But the fast proved an utter failure. On the one hand, violent incidents continued to increase in numbers and in intensity and, on the other hand, Mr Mukherjee further weakened his own position in the government by the manner in which he sought to protest through fasting.

The fast was obviously directed against the CPI(M) and Mr Basu in particular.

But Mr Mukherjee did not have the courage to admit it openly. On the other hand, he repeatedly clarified that his fast was not aimed at any party or individual but only against lawlessness — an explanation which convinced nobody. Mr Basu now began to defy the Chief Minister more openly and frequently than before. Then followed the prolonged correspondence between Mr Mukherjee and Mr Basu over the powers and functions of the Chief Minister. Although their offices were situated in the Writers' Building next to each other, they did not like to discuss their differences personally but preferred to exchange lengthy letters which, incidentally, were all written in English although the United Front had pledged to popularise Bengali in administration.

Mr Basu emphatically asserted that the Chief Minister had no powers whatever to interfere in the other departments and that whatever co-ordination was necessary had to be secured at the meetings of the cabinet or the United Front and not to be undertaken by Mr Mukherjee. He made it clear that the constitutional position was not relevant to West Bengal because of the peculiar circumstances in which the United Front came into existence. Mr Mukherjee, however, strongly disagreed and quoted chapter and verse to show that Mr Basu's position was quite untenable. He argued that as the Chief Minister he had the constitutional right to supervise the activities of other departments and co-ordinate their work to ensure discipline and efficiency.

Significant Feature

But apart from the arguments and counter-arguments, the most interesting and significant feature of the correspondence was the manner in which it was conducted. While Mr Mukherjee expressed himself in dignified language, Mr Basu showed no concern for official or political decorum. As leader of the Opposition for nearly two decades in the West Bengal Assembly, Mr Basu had built up a vocabulary of choice invectives which he mercilessly hurled at the Chief Minister. He openly accused him of dishonesty and hypocrisy, curtly told him not to interfere in other departments and warned him of dire consequences if he did so. Mr Mukherjee sadly commented that even the declaration of war between two hostile countries was not done in the kind of language used by Mr Basu against the Chief Minister.

Though the Bangla Congress has condemned the role of the CPI(M), it claimed, in its resolution asking Mr Mukherjee to resign, that the UF government had some "spectacular" achievements to its credit. We shall discuss below what these achievements were and in what sense they were spectacular.

II

ECONOMY IN SHAMBLES

When the Bangla Congress claimed, in its resolution of March 8, that the United Front government had "some spectacular achievements" to its credit, it was perhaps referring to the substantial increase in the wages secured by large numbers of workers in the jute, tea, engineering and cotton textile industries. But the workers did not get these benefits as a result of collective bargaining with their employers. On the other hand, higher wages were wrested from industries whose financial condition had been seriously affected as a result of the fall in foreign demand (as in tea and jute) or prolonged recession (as in engineering). The state government threw its full weight on the side of the workers without giving any consideration to the capacity of the industries to bear the higher financial burden. But even after getting these big benefits, the industries concerned have seen no improvement in productivity or in discipline. In fact, there has been a deterioration in both respects not only in these industries but in many others as well.

The most serious indictment of the UF government is that it has systematically and deliberately disrupted the economy of West Bengal. Though the Calcutta High Court had strongly condemned gheraos and declared them illegal, the ministers almost vied with one another in glorifying this practice. Gheraos were not the only tactics used by the workers with the blessings of the ministers. The workers resorted to other devices as well to terrorise employers and force them to concede their demands. Employees in commercial firms also became militant and began to indulge in coercive tactics. That such practices succeeded very well is clear from the fact that many commercial firms who have closely identified themselves with West Bengal for generations have been compelled to shift their offices to other states. Well-known business houses such as Birlas, Bajorias, Bangurs, Binanis, Jains, Jalans and Thapars have not only stopped taking any interest in investing in West Bengal but have also turned their attention to other regions where they can work with security and self-respect.

Even assuming that some employers have not been enlightened enough in giving a fair deal to workers, there can be no justification whatever for the kind of agitation that is carried on by the staff in commercial firms in Calcutta. One has only to come to Dalhousie Square where are situated some of the biggest firms to see abundant evidence of wanton vandalism and rude behaviour by employees. Since their demands in most cases have evoked the support and sympathy of the government, the employees could have conducted their agitation with some restraint and dignity since, sooner or later, they are bound to get their claims, provided they are reasonable, conceded by the management. But the employees have thrown to the winds all legitimate means of agitation and freely resorted to abuse and assault to terrorise the employers and force them to yield to their demands. Where they have been unable to concede the demands, the factories and offices have been closed. The official figures given in the table below show the trend in industrial disputes.

Flight of Capital

These figures do not and cannot bring out the agony and anxiety felt by employers (and, in some cases, by their families as well) as a result of terror tactics of workers. Even if the new government of West Bengal somehow succeeds in providing security to employers, the climate for investment can never be the same as it was until about two years ago. The United Front's policy has led to the fright and flight of capital which is bound to aggravate the already acute problem of unemployment.

Provision of jobs was one of the most fundamental objectives of the United Front. But it has not only not succeeded in providing more employment but what is most unfortunate is that it has deprived thousands of people of their jobs by creating conditions that led to

NUMBER OF INDUSTRIAL DISPUTES IN WEST BENGAL

	1967	1968	January to September 1968	January to September 1969
Stoppages	438	417	360	710
Workers involved	165102	263450	227778	645187
Man-days lost	5015852	6722348	5517622	8549203

the closure of offices and factories. The UF also has complicated the problem of unemployment by creating chaos in education at all levels. It has been alleged that the management committees of hundreds of schools have been packed with confirmed communists. There have been numerous instances of headmasters of schools and principals of colleges being forced to submit their resignations by rioting students. University classes in Calcutta and other places in West Bengal have become centres of intrigue and violence and there is hardly any kind of education worth the name being imparted in most classes. The UF leaders do not realise that by playing politics with academic life, they are preventing the future citizens of India from equipping themselves to get suitable employment. Thus by disrupting industry on the one hand and dislocating education on the other, the United Front has done a distinct disservice to the youth of West Bengal.

Depressing Picture

An official review which was released at the time of the presentation of the state budget last month has given a depressing picture of the economy of West Bengal. It highlights the decline or stagnation in production in many industries such as jute, iron and steel, tea, paper, paint and varnishes. Production of jute textiles which was 11.6 lakh tonnes in 1967 against 11.2 lakh tonnes in 1966 fell to 10.8 lakh tonnes in 1968. In the first six months of 1969, as compared to the corresponding period of the previous year, there was a further downward movement in production. The iron and steel industry has not yet recovered from the set-back in production during the past few years. Production of tea fell from 97.2 million kgs in 1967 to 96.7 million kgs in 1968. Production during the first five months of 1969 showed only a small rise compared with that of the corresponding period in 1968. Production of paper fell sharply from 129.3 million kgs in 1967 to 121.3 million kgs in 1968. Production during the first six months of 1969 was almost half of that during the corresponding period of 1968. Production of paint and varnishes which recorded a rise of about 6.1 per cent in 1967 showed a reverse trend in 1968 with a sharp fall of about 18.4 per cent from the figure for the previous year. Production of coal remained practically steady at 20.07 million tonnes in 1968 as compared to 20.03 million tonnes in the previous year.

West Bengal's financial position also has become unsatisfactory. The budget for 1970-71 has revealed an overall deficit of Rs 15.51 crores — Rs 6.11 crores on revenue account and Rs 9.40 crores outside the revenue account. Together with the negative opening balance of Rs 25.06 crores, there is an overall negative closing balance of Rs 40.57 crores for 1970-71. But no new taxes have been proposed for 1970-71.

The United Front had no time to give attention to the proper working of the state government undertakings. As a result, many of them such as the Greater Calcutta Milk Supply Scheme, industrial estate in Kalyani, Central Engineering Organisation in Howrah, wood industry centres, Brick and Tile Board, state transport services, Durgapur, saw mills at Siliguri, Oriental Gas Company, and the Mechanised Brick Factory continue to incur large losses. For example, the Greater Calcutta Milk Supply Scheme is estimated to lose Rs 1.20 crores in 1970-71 compared to Rs 97 lakhs in 1968-69. The financial position of the Calcutta State Transport Corporation and the tramways company also continues to be highly chaotic while the efficiency of their services deteriorates day by day.

Thus, while many states such as Punjab, Maharashtra and Tamil Nadu have been marching ahead in industrial and agricultural production and in creating new employment, the economy of West Bengal not merely stagnates but shows signs of serious disintegration. This is having its inevitable impact on the civic service in Calcutta. Much is often said about the neglect of the city of Calcutta by the central government. New Delhi is constantly reminded that Calcutta is a national city and that its development should be the responsibility of the entire nation. But when Calcuttans themselves show so little concern for the betterment of their city and the state government has little time for constructive work, what can the centre itself do to save Calcutta from disaster? If conditions in Calcutta continue to appall — the report of the Pearson Commission has drawn a gruesome picture of this city — it is not so much due to the lack of finance or foreign exchange as because of the lethergy and indifference of the state government and other local authorities.

It is a pity that the United Front has done nothing positive to improve Calcutta. On the other hand, it sabotaged a scheme which Calcutta's businessmen had prepared for the city's development. The scheme envisaged a Metropolitan Calcutta Corporation to which the share capital would be subscribed jointly by the state government and the private sector. The Corporation was to undertake the planning and execution of municipal development scheme. Commenting on the failure of this scheme, Mr J.M. Parsons, till recently President of the Bengal Chamber of Commerce and Industry, said on February 20, 1970: "The scheme foundered mainly because of the state government's claim that there were already public organisations which could undertake such work without the formation of an entirely new institution. Basically, however, I believe that the failure of the proposals was due to mistrust of the private sector by the state

government, and the arguments against the scheme entirely missed the point that a joint venture of this kind could harness the skills and the executive abilities of the private sector and could avoid the delay and bureaucratic methods which appear to be inseparable from state-run institutions. It is great pity that the idea was not proceeded with, for I believe that a joint corporation of this kind could do much to raise finance and put it to effective use, and I think that it is still not too late to give it a chance."

Mr Jyoti Basu recently declared that if steps were not taken to encourage investment in West Bengal, the state would soon be converted into a desert.

This is indeed a sad commentary on the UF administration. But the economic prosperity of West Bengal cannot surely be left entirely in the hands of the constituents of the United Front. If peace and production in West Bengal suffer, it will have an impact on the eastern region and on the country as a whole. According to the Pearson Report, Calcutta handles 42 per cent of India's exports, 25 per cent of her imports, produces 15 per cent of her manufactures, and provides 13 per cent of her higher educational capacity. How is it then that New Delhi has been a silent spectator all these months when this strategic state has been subjected to deliberate disruption with political motives?

New Industrial Policy: Pluses and Minuses

R. C. UMMAT

ONLY LEGAL pundits can pronounce judgment on whether or not the stipulation in the new industrial policy that the larger industrial houses, foreign concerns and dominant undertakings will have to take out a licence if they want to set up a unit in the de-licensed sector where the total investment does not exceed one crore of rupees, violates the constitutional provision that only reasonable restrictions can be placed on the freedom of the citizens of this country to practise any profession or to carry on any occupation, trade or business. But there is no denying the fact that the new policy aims at giving a new direction to our industrial structure. It wants the established business houses to venture primarily into the fields of heavy investment and those which are beyond the technical competence of the small and medium entrepreneurs, leaving a major segment of our industrial economy to the care of smaller entrepreneurs.

The argument here apparently is that, if our industrial growth has to proceed on sound lines, it is desirable that the established industrial houses, which can supply technical skills for producing sophisticated products either on their own or through procuring them from abroad, should concentrate on the more difficult lines of production, instead of frittering away their talent and resources on producing something which even the less experienced can produce.

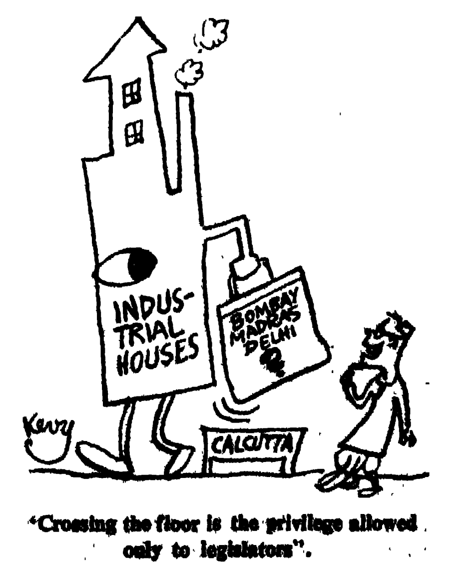
The clarifications of the new policy issued by the Ministry of Industrial Development a few days ago (these are reproduced in the Records and Statistics section of this issue) make it abundantly clear that the scrutiny of projects even in the de-licensed sector is not always dispensed with. If the foreign exchange component of a venture costing not more than one crore of rupees exceeds 10 per cent of the capital cost or if the annual raw material and components requirements of such a venture are more than three per cent of the turnover or three lakhs of rupees, whichever is more, scrutiny will take place indirectly at the level of the Directorate-General of Technical Development or the import control establishment.

In the case of expansion of the existing units also the exemption from licensing is to be provided only if the additional investment does not exceed one crore of rupees and the overall investment, including the existing one, does not go beyond Rs 5 crores and also if the other criteria such as the unit to be expanded does not belong to the larger industrial houses or to the category of foreign-owned and dominant companies and the criteria concerning foreign exchange requirements are satisfied. Further, with the lapsing of the managing agencies on April 2, the licensing provisions of the new policy may have to undergo substantial changes; a clear picture in this regard may not emerge till the Monopolies and Restrictive Trade Practices Bill is put on the statute. Ultimately, the definition of group industries as contained in the Monopolies Act will become operative for the purposes of the new industrial policy.

The provision in the new policy for the re-licensing of industries which had been de-licensed since 1966, suggests, on close scrutiny, that, of the total 41 industries which were on the de-licensed list, not more than six will fall within the purview of the licensing provisions and that, too, because the investment in these will be more than one crore of rupees per unit. Among the de-licensed industries for which licences will have to be taken out now are: (i) paper; (ii) newsprint; (iii) cement; (iv) tractors; (v) agricultural machinery; and (vi) continuous casting machines.

It is by no means clear that the new policy will succeed in its objective of throwing up new entrepreneurship or stepping up industrial growth. Even the founder-president of the Federation of Associations of Small Industries, Mr A.R. Bhatt, has pointed out, that the mere reservation of certain fields of production for small entrepreneurs or restricting the entry of bigger entrepreneurs into small and medium sector industries cannot produce an economic miracle. Such a step can be effective only if raw materials, both indigenous or imported, are available in adequate quantities and at reasonable prices.

If the growth of larger industrial houses producing raw materials is sought to be restricted through licensing in the exercise of which regulation strictly economic considerations are not always allowed full sway and political considerations do creep in, the result will not only be that industrial growth will tend to stagnate, but also the already high cost economy will become costlier. And if in the interest of keeping the prices of raw materials at reasonable levels the economics of the producing units is allowed to be jeopardized through unreasonable price controls or other such factors, the damage which the new policy will do to our industrial growth can indeed be immense. The complete divorcing of larger industrial units from consumer industries will undoubtedly affect their profitability. This will hinder their capacity to invest



"Crossing the floor is the privilege allowed only to legislators".

in the heavy investment sector or the core industries.

Apart from what has been said above, the more dangerous implications of the new policy are: (i) the right being given to the public financial institutions to convert their loans into equity so as to enable them to have an effective say in the affairs of the loanee companies; and (ii) the yet undeclared intention to ultimately reduce the Rs 35 crores definetion for larger industrial houses to Rs 20 crores.

The financial institutions will be required to exercise the right of converting their loans into the equity capital of the loanee companies within a period of five years and once this option has been exercised, it would not be revoked. In view of the paucity of the managerial talent at the disposal of the financial institutions, this right presumably will be exercised in cases in which the financial institutions think their loans are not being judiciously utilised or the profitability is more than the interest rates chargeable on the loans. In principle, there cannot be any objection to this provision also. But if the effective say means that the financial institutions are to be provided with veto power in the affairs of the loanee companies in regard to such matters as the recruitment of personnel with salaries above a certain limit, the appointment of the sole selling agents, large purchase contracts, etc., even though they will not be having controlling interest in the company concerned, it will amount to treading on the rights of the other shareholders or the sponsors of the undertaking. With the nationalisation of the 14 leading commercial banks in the country, the contribution of public financial institutions to the capital of industrial undertakings apparently has gone up substantially. In effect, the above move will amount to back-door nationalisation and that too not with controlling but with just a substantial interest in an undertaking.

The lowering of the assets limit for defining large industrial houses from the present Rs 35 crores to Rs 20 crores will widen the area of licensing considerably even if after the lapse of the managing agency system, some industrial houses loose control over some of their presently controlled companies.

The rigour of this provision can well be brought out by just pointing out the fact that as a result of the persistent uptrend in prices over the last 13 years or so, even a couple of moderately big units producing sophisticated articles will be costing more than Rs 20 crores in land, equipment and machinery. If the growth of even such units in the allied fields of manufacture is to be controlled rigorously, the industrial growth can surely be jeopardised The new units apparently will also be at a disadvantage compared to the already established ones as the investment at the time of setting up these units is to be taken into consideration for calculating the aggregate assets of the grouped companies.

FICCI ANNUAL SESSION

A Dialogue of Sorts

THE EDITOR

AN ANALYSIS, not solemn but still serious enough, of the Prime Minister's inaugural address at the 43rd annual session of the Federation of Indian Chambers of Commerce and Industry, which was held in New Delhi over the week-end, seems to offer some tempting possibilities.

Mrs Gandhi: *In a sense the regulations and controls which we maintain are not directed at any particular section of the community. Much less are they maintained as an end in themselves. Anti-social elements are to be found in all sections of the community. We must deal with them without fear or favour and I do realise that it does not help to generalise or to tar entire groups with the same brush. If we want to build up managerial and entrepreneurial talent on a large scale, unlimited freedom cannot be allowed to those who are already well-established.*

The Prime Minister, it may be noted, does not state that regulations and controls are not directed against industrial expansion or economic growth. She merely asserts that they are not directed at any particular section of the community. Does she understand what the complaint is about?

Anti-social elements, she informs us, are to be found in all sections of the community. Controls, we presume, are the police force for dealing with anti-social elements in the business community. May we take it that the government has finally made up its mind on what controls are for and that we will hear no further talk at least from the Prime Minister or her party of controls being the grand mechanism for mobilising resources and applying them to priorities of development?

We must deal with anti-social elements without fear or favour, says the Prime Minister. Let her, by all means, do so, not forgetting West Bengal. In the next sentence she declares that unlimited freedom cannot be allowed to those who are already well-established if we want to build up managerial and entrepreneurial talent on a large scale. A sound sentiment no doubt, but what has this got to do with what she had been saying immediately before about controls and anti-social elements? A case of poor drafting perhaps, or could it be a case, again, of stray thoughts?

Mrs Gandhi: *We are not opposed to largeness in itself. At the same time, efficiency does not always or necessarily increase with size. Also we cannot overlook the fact that many large enterprises set up in the country have had to draw more heavily on public financial institutions than on resources which they themselves raised. It is not unreasonable to expect that an enterprise which draws on the resources of the public at large should also be prepared to share management with government or financial institutions and be ready to expose itself to the public gaze.*

We may readily accept the Prime Minister's word that "we are not opposed to largeness in itself". How could it be otherwise, looking at the size of government departments or ministers' residences, including lawns? The size of the working committee of the ruling party, including special invitees, is also further proof that 'they' cannot be "opposed to largeness in itself".

About public financial institutions making loans to large enterprises, what are the former for? For breeding white tigers (and white elephants)? Again, is it not part of the government's socialist thesis that it should acquire a commanding position in mobilising private savings and directing them into channels of development? Is it not clear that business enterprises, whether large or small, are only playing their humble part, willingly or unwillingly, in this grand process when, finding themselves denied normal access to voluntary savings in the community, they knock at the doors of public financial institutions as they are meant to?

Again, is it unreasonable to expect that, considering the powers, opportunities and machinery the government already has for exercising reasonable and legitimate supervision over the conduct, general or even particular, of industries in the private sector, there is hardly any useful purpose to be achieved by the government or public financial institutions wanting to "share management", without having any obvious qualifications for doing so?

Mrs Gandhi: *Mr President, you have expressed some concern about the role of the public sector in the country's foreign trade. Many traders operate on margins very much lower than in other countries. At the same time, I know that in some sectors of imports, the profits available to importers are disproportionately large. Many of you must be conscious of the inadequacies of our commercial set-up, as it now obtains in our country, to meet the challenges of the seventies. I doubt whether our importers are always able to buy from the best source or to use our buying potential to advance our national interest. Similarly, our capability to take advantage of expanding export trades needs to be built up. It is our policy to use the public sector to make good these deficiencies and to induce and organise individual initiative so that we can develop our foreign trade along efficient lines and to the best national advantage.*

We know that she knows that in some sectors of imports, the profits available to importers are disproportionately large. In fact, we know a lot more. For instance, about what happens to these profits when imports are procured by government trading corpora-

May be, I've to learn more about socialism.

tions and resold to favourite or politically useful part-time bussinessmen.

Many of us are certainly conscious of the inadequacy of our commercial set-up as it now obtains in our country. Many more are even more conscious of the inadequacies of the public sector, whether in industry or trade.

Mrs Gandhi: *In India there is room for initiative and enterprise for every section of the community.*

Except, of course, those sections which have already demonstrated their initiative and enterprise. Witness the government's industrial licensing policy or the proposals relating to direct taxation in the latest central budget.

Mrs Gandhi: *All great human societies are the creation not of profiteers but of dreamers....*

Let us thank our stars that we have no dreamers among our politicians, but only profiteers.

Accent on Harmony

INAUGURATING THE 43rd annual session of the Federation of Indian Chambers of Commerce and Industry in the capital on March 14, the Prime Minister, Mrs Indira Gandhi, laid emphasis on the role of the government in reconciling differences among different sections of society so as to serve as an instrument of orderly and peaceful progress. She said that the regulations and controls which were maintained were not directed at any particular section of the community; they were also not maintained as an end in themselves. They were designed to deal with anti-social elements which were to be found in all sections of the community though she hastened to add that it did not help "to generalise or to tar entire groups with the same brush."

Sharing Management

Regarding large business houses she expressed the view that efficiency did not always or necessarily increase with size. Also many large enterprises set up in the country had to draw heavily on public financial institutions and therefore, in her view, it was not unreasonable to expect that such enterprises should share managment with the government or the financial institutions. Regarding profits, she said that the need and the justification for every industrial enterprise to make profit was not questioned, though in her view these profits should be based on efficiency and not merely on the ability to charge prices to the consumers without hindrance. She added that this was all the more necessary in a country where because of foreign exchange difficulties the domestic industry could not be subjected to the full competition of imports. Even in those cases where imports were allowed, the government levied high duties in the interest of domestic production. She came to the conclusion that the burden of protection was borne by the ordinary consumer and therefore he (i.e. the consumer) had a right to expect that this burden was not unreasonable. It was in the light of these developments that the government had to resort to price controls for basic essential items from time to time. The government could not, under these circumstances, dispense with price controls and other regulatory mechanisms.

She deprecated profits sustained for a few people by special arrangements such as selling agencies and managing agencies. According to her, they had no place in modern industry. The industry today, she said, has to compete both at home and abroad and must "justify its profits in terms of quality rather than manipulative talent".

Discussing the improvement registered in regard to exports of engineering goods and other new products, the Prime Minister opined that our country had succeeded in breaking out of a long period of stagnation and could look forward to a steady increase in export earnings. The only anxiety, she said, was the welcome revival in domestic demand which might tempt some who had contributed to this country's success in overseas markets, to confine themselves to the home market. This temptation would need to be resisted. No good entrepreneur, she said, would wish to sacrifice long-term interest for the sake of short-term profits.

Production for Export

The Prime Minister also stressed the necessity of keeping production ahead of domestic demand if the recent momentum of this country's export effort was to be maintained. It was in view of this reason that, she added, the recent industrial policy statement had put increasing emphasis on production for exports. She was of the view that our earnings could be substantially increased through such exports as cash crops, fruits and flowers, forest and marine products and mineral ore. She was confident that these primary products could be increasingly exported in processed or finished form as our expanding labour force "is endowed with traditional dexterity and skills as also with the capacity to imbibe modern technology."

Referring to the role of the public sector in our country's foreign trade, she expressed doubts if our importers were always able to buy from the best sources or were able to use our buying potential to advance our national interest. She said that it was the policy of the government to use the public sector to make good some of the deficiencies in our foreign trade mechanism and to develop the foreign trade of this country along efficient lines and to the best national advantage. She agreed with the FICCI president that there was need for improvement in the commercial infrastructure of this country so as to sustain our export drive.

The Prime Minister discussed the problem of unemployment of educated young people, specially those who had undergone technical courses. In this connection, she praised the initiative taken by some industrial houses in giving practical training to technical graduates which would help them to be absorbed later in industry or would enable them to set up small industries of their own. The government on its part has shown its appreciation of this more in a concrete form by bearing 50 per cent of the cost. She expressed the hope that more leaders of business and industry would take up similar schemes.

Presidential Address

In his presidential address Mr Ramnath A. Podar stressed the need for stimulating the output of raw materials and consumer goods "through intensive outlays" by public and private sectors. He said that for one reason or another sizable investments in industry had not been taking place during the last few years. Commenting on the latest budget, he said that the steep rise in wealth tax and personal taxation rates might not leave sufficient savings in the hands of entrepreneurs and investors to invest in new industries.

Mr Podar expressed the view that the recent policy directives issued by the Reserve Bank of India were likely to affect the pace of growth in industrial production through reduction in credit facilities as the general credit creating capacity of banks has been reduced by requiring them to invest additional funds in government securities. Also definite restriction put on advances against shares and other commodities was likely to worsen the investment climate in the country which was already not quite encouraging.

Discussing the operation of controls and licensing in our economy, Mr Podar suggested that controls should be re-

placed by a system of incentives and disincentives especially at the present time "when there is greater recognition than ever before of the need to secure a higher rate of economic growth". He however welcomed the recent steps taken by the government in relation to foreign travel and industrial licensing, in particular the raising of the exemption limit in respect of an industrial license from Rs 25 lakhs to Rs 1 crore. He also added that the benefits of liberalisation would be offset to the extent that development by the so-called larger houses would be restrained. The most over-riding handicap according to him was the provision relating to equity participation by financial institutions in the capital structure of private sector companies. "If the financial institutions assume the right to convert loans into equity, not only the capital structure of the borrowing companies will become unbalanced, but such funds of the financial institutions will get blocked", added Mr Podar.

Mr Podar made a pointed reference to the recent discussion on monopolies and large business houses. He said that the Federation had always maintained that the smaller units should be given incentives, facilities and encouragement to develop but he failed to understand how a ban on the large-scale industries would create opportunities for the small-scale sector. Mr Podar also referred to frequent mention of nationalising one industry or the other "in quarters very close to government" after the nationalisation of 14 major banks. How could progress be recorded in production or in distribution when this threat of transfer of ownership of industry remained, he asked. Mr Podar ended his address on a hopeful note: "As businessmen, we are responsible, for a good bit of the economic activity of the nation, and we have a special burden to bear. We have to work more and produce more, so that our fellow citizens have greater and better opportunities. We should continue to do our best to strengthen the forces of development, and to extend the frontiers of welfare".

THE RESOLUTIONS

The following three resolutions were passed by the Federation of Indian Chambers of Commerce and Industry at the 43rd annual session held in the capital between March 14 and 16.

Prospects & Problems in Coming Decade

The Indian economy at the threshold of the decade is poised for a rapid advance. However, certain steps have to be taken both by government and industry to overcome some of the immediate problems which the country may have to face. Important among these are population explosion, unemployment, export promotion and law and order situation

The Federation firmly believes that most of these problems can be solved primarily by accelerating economic development. It is equally necessary to control population growth and, for this purpose, government and industry have to undertake positive measures on a large scale. Family planning schemes have to be brought within the reach and knowledge of all sections of the people.

To fulfil the immediate social needs and alleviate unemployment, among other things, a crash programme of massive road construction, house building and slum clearance must be undertaken. However, the basic impetus will have to come from the growth of industries at all levels. There has to be special emphasis on mass production and effective competition with a view to reduce costs and prices. Towards this end foreign technology must be fully utilised and, at the same time, industry must also promote research within the country.

The requisite infrastructure has to be built and an adequate supply of foodgrains and other raw materials maintained. Hitherto we have paid greater attention to our food crops which, fortunately, have increased substantially. There is need now to devote more effort than in the past to the production of cash crops which are the basis of major industries in the country and which also have an export potential. The progress of both industry and agriculture will have to be supported by investments in electricity generation and distribution, efficient and speedy communications and transport.

It is obvious that fiscal and monetary policies will have to be such as to generate greater resources in the hands of the people for productive investment. The financial burden of the programmes can be definitely reduced through policies and measures which put the highest premium on productivity, efficiency and cost reduction.

The economy in the 1970s will have to accomplish a basic transformation in its structure. An overall annual rate of growth of 7-8 per cent will be possible if a steady advance of 6 per cent is maintained in agriculture and about 12 per cent in industries, —large, medium and small — with a commensurate step up in infrastructure facilities. It is necessary to meet consumer demand which will grow in volume as well as in diversity.

The acceleration of the rate of growth presumes that the course of the economy will be free and will not be blocked by policy restraints. This particularly calls for streamlining of procedures for industrial licensing and opening up opportunities to all types of industries. To the extent expansion of industrial units results in cost and price reduction, it should be encouraged. There should be positive incentives for people to work, save and invest. The capital market must also be made more active and responsive.

The need to maintain law and order is fundamental as without it there can be no progress. In this behalf not only the authorities but all responsible sections of the public should exercise the greatest vigilance.

In short policy must be geared to create a psychology of vigorous growth to stimulate every phase of activity in our national life.

Fiscal and Monetary Policies

The Federation welcomes the statement of the Prime Minister, while presenting the union budget for 1970-71, that measures have to be devised which, while providing welfare, also add momentum to productive forces. The reconciliation and attainment of these two objectives cannot, however, be made in a single year. It is necessary to have stable and continuing policy so that the desired goals can be achieved in a short time. With this in view the Federation has the following suggestions to make in respect of both fiscal and monetary policies for consideration of the authorities:

1. The tax system must be such as to encourage saving, investment, enterprise and effort. This would be possible only when the tax base is wide and the incidence of all direct taxation is definitely less than income.

2. Corporate taxation has to be at a level, and consistent over a period of time, as to facilitate long term business decisions, promote a healthy investment climate, and enthuse not only existing but new entrepreneurs to go ahead with higher investments.

3. The new rural debentures scheme and the small savings programmes must be widely publicised and effectively organised. Commercial undertakings in the government sector should be made increasingly to depend on similar borrowings for their financial needs. In this way their business discipline will improve and the utilisation of tax proceeds will be limited to government's revenue expenditure.

4. Bank credit is showing signs of becoming more costly and less adequate. Steps, therefore, should be taken to

make credit less costly and credit restraints should take necessary care of the needs of production and distribution.

5. Industry has to depend on financial institutions for long-term credit reasons. The proposal that the financial institutions should have the option to convert loans into equities will deter entrepreneurs and businessmen and, consequently, negate all attempts by government as well as private enterprise to foster industrial growth.

Dynamic Export Strategy

While there was a record growth of exports in 1968-69 of 13.5 per cent in value, the Federation notes with concern that in the current year the growth rate has fallen to about 4 per cent. India's share in world exports has declined in recent years and is now less than one per cent. On the other hand, many other developing countries have been able to consistently increase their exports.

The fourth Plan envisages an expansion in total export earnings at the rate of 7 per cent per year. If this is to be achieved, there is need for all round intensified efforts, refashioning of economic policies and a positive export strategy. The best way to stimulate exports would be on the basis of increasing production at competitive costs and creating surpluses so that the export effort gains a natural dynamism.

The Federation recommends the following measures:

(a) Promoting initiative for productive effort so as to bring about continuous increases in production and export surpluses in agriculture, industry and mining;

(b) Freedom to industry to plan and achieve higher efficiency through economies of scale, adoption of latest technological advances in production and cost reduction;

(c) Stable economic policy which will eschew constant threat of nationalisation of industries and state take-over of import and export trade;

(d) Industrial discipline and higher productivity;

(e) Facilities for developing modern marketing techniques;

(f) Improvement and modernisation of port facilities and shipping services;

(g) Emphasis on continually improving quality to better compete in international markets;

(h) Stability in prices of agricultural commodities and cash crops;

(i) Additional support to establishment of joint ventures abroad and export of technical know-how;

(j) Elimination of export duties and other burdens on exportable commodities;

(k) Simplification of procedures; and

(l) Development of invisibles like banking, insurance, shipping and tourism.

FROM THE PRESS GALLERY

Hasty Retreat by Nanda

OUR PARLIAMENTARY CORRESPONDENT

NEW DELHI, Monday.

SINCE WE reported last, the two Houses of Parliament have completed their deliberations on the President's Address and the railway budget. They are now discussing the union budget.

The ink had hardly dried on the proposals of the Railway Minister, Mr G.L. Nanda, seeking to net an additional Rs 39 crores revenue through enhancement of freight rates on various commodities, including foodgrains, and passenger fares, both for the third class and higher classes travel, when he came out with wide-ranging concessions.

Initiating the general debate on his budget in the Lok Sabha, Mr Nanda withdrew all the increases proposed by him in the third class passenger fares, both for the ordinary passenger trains as well as for the express and mail trains. He also withdrew the increases in the charges for third class suburban and non-suburban monthly and quarterly tickets and the enhanced charges for the third class sleeper berths. The raise in the vendors' monthly tickets was also withdrawn. The charges for the platform tickets were restored to the pre-budget level. The proposals in respect of fares of upper classes, including third class air-conditioned chair car, however, were maintained, except that the minimum charge for the first and second class travel was made uniform at Rs 1.50, instead of Rs 2 and Rs 1.50 as proposed in the budget speech.

Proposal Withdrawn

As regards goods traffic, Mr Nanda withdrew the proposals for the adjustment of freight rates in respect of foodgrains, including pulses. The proposed increase in parcel charges for milk was also taken back.

The combined effect of the above concessions, Mr Nanda estimated, would be the diminution of the anticipated additional revenue by as much as Rs 13 crores.

That Mr Nanda had to yield on the above proposals primarily on political considerations should be evident from his observation that he was withdrawing the proposals against his better counsel and "in deference to the wishes of various sections of the House". (incidentally, the House had yet to express itself on the proposals). The railways, Mr Nanda added, could ill afford this loss of revenue; he gave a detailed account of the financial health of the railways. This premier public sector undertaking, Mr Nanda said, had, since April, 1964, not only depleted the entire balance of Rs 110.48 crores it had accumulated earlier but had also become indebted to the general exchequer to as large an amount as Rs 55.93 crores.

The Minister revealed that there was an enormous leeway to be made up with regard to the "legitimate and pressing needs" of the country so far as railways were concerned. But under the constraint of the paucity of resources, the railways, he added, were faced with the prospects of curtailing expenditure even on their normal activity.

Indiscriminate Rise

During the discussion on the railway budget in the two Houses, a good deal of concern was expressed on the indiscriminate increases in freight rates. It was argued that they will add to the inflationary tendencies in the economy. The railways were urged to tone up their operations in the interest of avoiding frequent increases in fares and freights.

Speaking on behalf of Congress (O), the former Railway Minister, Mr C.M. Poonacha, expressed the view that the railways had been over-capitalised. He charged the Railway Ministry with lack of perspective in planning its developmental programmes and stressed that if certain states had not developed properly, it was not due to the lack of initiative on the part of the governments there; the railways had not provided them with a chance to develop by opening up areas, as the road engineers had done in planning the national highways. The north-east region, Bihar, Madhya Pradesh, Gujarat, Rajasthan, Mysore and Kerala, Mr Poonacha pointed out, were still served by the metre-gauge system. All these states had abundant natural resources and once they had the broad-gauge railway system, they were bound to develop.

The forceful plea put forth by Mr Poonacha for the conversion of the metre-gauge system into the broad-gauge system was supported by most of the members who participated in this debate. As in the past, several members stressed the need for development of railways in their areas.

A DMK member demanded the revival of the Standing Finance Committee for Railways, if a separate Railway Tariff Commission could not be set up. He also wanted that the monolithic character of railways should be broken up and regional railway boards should be formed.

The increase in passenger fares for the upper classes travel was criticised, among others, by Mr Lobo Prabhu (Swt.) who argued that as nearly 80 per cent of travel in the upper classes was either on government account or on company expense, money for it would be found either by raising taxes or by pushing up prices. He advocated that the railways should balance their budget by resort to judicious purchases of their rolling stock, reducing the rates of their dividend to the general revenue from six to 4.5 per cent and effecting a saving of Rs 100 crores in their annual expenditure by implementing the suggestions made by the Auditor General.

Several members pointed out that despite the enhancement of the penalty on ticketless travel, this malady still persisted on a fairly large scale. Vigorous efforts, they urged, should be made to improve railway earnings by checking ticketless travel. Concerted efforts, it was further suggested, should be made to check pilferage of railway property. The law and order situation in the country, it was stressed, should be improved so that losses of railway property could be curtailed.

Concessions were also demanded by several members in freight rates on movement of export goods to the ports. Several members championed the cause of railway workers and wanted a separate pay commission for them.

Social Benefits

Intervening in the debate in the Lok Sabha, the Deputy Minister for Railways, Mr Rohan Lal Chaturvedi, observed that a decision on the metropolitan rail transport systems for Bombay, Madras, Delhi and Calcutta would have to be taken in the light of the total social benefits accruing to the community and regardless of these being capital-intensive. Action in this regard, he added, could be taken only after the techno-economic studies to be undertaken by the state governments were completed. For his part, he reaffirmed the railways' commitment to spend Rs 50 crores on developing the railway systems in the four metropolitan cities.

Having announced several concessions in his proposals at the very start of the debate on the railway budget, Mr Nanda's reply to the discussion in the Lok Sabha did not contain any surprises. He just remained content with expressing vague hopes of toning up the railway administration and plugging leakages to make up the loss of the anticipated revenue on account of the concessions announced. But in his reply

to the debate in the Rajya Sabha later, he spelt out his plans in more specific terms and made two important announcements. The first was that the railway administration would be having soon a new cell to examine suggestions emanating from employees and other sources to improve its efficiency. The second announcement envisaged a review of the whole railway set-up at the top with a view to making it more responsive to criticism. The recommendations of the Administrative Reforms Commission, Mr Nanda said, would naturally be taken into consideration while reorganising the railway set-up. He also indicated that the railways might run bus services in sectors where their operations were uneconomic.

The general debate on the union budget got off to a good start by two stalwarts of the opposition benches joining forces to paint the government in the darkest of hues. They were Mr Asoka Mehta (Congress-O) and Mr M.R. Masani (Swt.). Both these stalwarts accused the government of pursuing a policy that would ultimately take the country downhill to economic bankcruptcy.

Mr Mehta pointed out that there was nothing new about the Prime Minister's budget proposals. They followed the same pattern as those of Mr Morarji Desai last year. There were some additions, but they amounted to just amateuturish embroidery of a fabric that had deliberately been made threadbare. Mr Masani felt that the Prime Minister's budget was not different in any way from any of the budgets presented to the House during the last two decades. Both Mr Mehta and Mr Masani regretted that the main problem of unemployment had not been appreciated by the Prime Minister while drawing up her budget proposals.

Fallacy of Double Account

Mr Mehta accused the Prime Minister of having gone in for the "fallacy of double-account". The revenue estimates, he opined, had been exaggerated by Rs 100 to 150 crores. Citing the *Economic Survey*, Mr Mehta further stated that shortages were emerging in many sectors of the economy. There was urgent need for quick expansion of industrial activity, but nothing was being done about it. On the contrary, the Ministry of Foreign Trade and the Ministry of Industrial Development were working at cross purposes. This had led to the tempo recently gained in exports being lost.

Mr Masani disputed the claim that the budget sought to improve the lot of the common man. The only welcome feature, he felt, was the raising of the exemption limit of income-tax. But here too the Prime Minister, he regretted, had been timid and not raised the exemption limit to Rs 7,500 as suggested by the Bhoothalingam Committee. Mr Masani expressed a good deal of concern at the extent of deficit financing proposed to be resorted to during the next financial year. While the Planning Commission, he said, had set the limit of deficit financing at Rs 800 crores for the entire fourth Plan period, the union government had gone in for deficit financing of more than Rs 600 crores in the very first two years of the Plan. This, Mr Masani stressed, was indicative of the fact that the Prime Minister's budget was inflationary in the extreme. The Swatantra leader also scathingly criticised the Bokaro plant and wanted the government to make a categorical statement about the truth of the reports that Russia had insisted on payment for this plant on the basis of the gold content of the rupees.

Scope for Profiteering

Mr S.N. Dwivedi (PSP) also saw little that was socialist or even socialistic in the budget. He felt that the budget had enlarged the scope for profiteering and mal-practices. The only redeeming features of the budget, according to Mr Dwivedi, were the additional wealth-tax on urban property, restrictions on trusts, and excise levies on some luxury items. Acharya J.B. Kripalani (Ind.) felt that the budget was an ordinary humdrum affair despite some half-hearted attempts at window-dressing. Mr S.A Dange (CPI) expressed the view that the relief given to farmers was fictitious and the budget had not done anything to break the stranglehold of monopolists, profiteers and speculators. There was a general clamour for reducing the excise duties on sugar, kerosene and petrol.

As could be expected, the Congress (R) members hailed the budget as a socialistic one. They argued that it reflected the government's concern for the poorer sections of the population. But some of the Congress (R) members also felt that the inflationary tendencies in the economy might get a fillip as a result of the budget proposals. Liberalisation of imports, withdrawal of low-priority and low-productivity schemes for the time being and bestowing of utmost attention on schemes for harnessing savings were suggested as some of the measures to avoid the possible inflationary trends.

Several Lok Sabha members, including Mr N.K. Somani (Swt.), Mr N. G. Ranga (Swt.), Mr Piloo Modi (Swt.), Mr K. L. Gupta (JS), Mr Prakash Vir Shastri (BKD), Mr Era Sezhiyan (DMK) and Mrs Tarakeshwari Sinha (Cong-O) alleged that the budget proposals had leaked out two days prior to their being presented to the House. They wanted a thorough probe into the matter.

Intervening in this debate in the lower House, the Minister of State for Finance, Mr P.C. Sethi, tried to allay the fears of members that the budget proposals would accentuate inflation. He denied that there was any leakage of the budget and promised that if any evidence in this regard was brought forth, the matter would be investigated.

Mr Sethi refuted the allegation of Mr Asoka Mehta that the revenue estimates for the next financial year had been overestimated. He also assured the House that the allocation of Rs 170 crores for assistance to states would be disbursed on the basis of the principles to be laid down by the Planning Commission for the state governments. Mr Sethi as well denied that market borrowings would be inadequate. He hoped that the public sector undertakings would make available to the government about Rs 105 crores next year.

Defending the enhancement of the excise duty on sugar, Mr Sethi stated that the increase in the price of levy sugar would be only marginal. The increase in duty on free-sale sugar would be absorbed by the producers themselves. Rejecting the demand for raising the income-tax limit to Rs 7,500, he reminded the House that the former Finance Minister, Mr Morarji Desai, had actually commended that there was scope for widening the income-tax base. Quoting figures of direct taxation in the United Kingdom, the United States and Japan, Mr Sethi denied that the rate of direct taxation in India was the highest.

Referring to the new industrial licensing policy, Mr Sethi clarified that the joint sector in industries would not mean any expansion of the private sector industrial units in the core sector; it only meant that the government would have a say in the private sector units in which the financial institutions had a stake.

Disconcerting Features

The worsening law and order situation in the country, especially in West Bengal, the disconcerting price trends in the economy and the growing unemployment were among the main points made during the debate on the President's Address inaugurating the budget session of Parliament. A good deal of concern was also expressed by certain sections of the House, especially by the treasury benches and their supporters in the opposition, over the Indianisation slogan of the Jana Sangh. The Prime Minister, in her reply, took serious exception to this slogan and expressed misgivings about the real intensions of Jana Sangh. She stoutly defended her government's policies and stressed that

the lot of the down-trodden had to be improved expeditiously.

The Rajya Sabha has passed six bills during the past two weeks. These are: (i) the Requisitioning and Acquisition of Immovable property (Amendment) Bill which put the parent act on a permanent footing; (ii) the Press Council (Amendment) Bill which aimed at reconstitution of the Press Council; (iii) the Union Duties of Excise (Distribution) Amendment Bill which gave effect to the fifth Finance Commission's recommendations on the sharing of the proceeds of the excise duty between the centre and the states;(iv) the Additional Duties of Excise (Goods of Special Importance) Amendment Bill which sought to continue the existing practice of levying additional excise duties on jute, textiles and sugar; (v) the Ports (Amendment) Bill which empowered the Port Commissioner of Calcutta to undertake the construction of a second bridge across the Hooghly on behalf of the West Bengal government; and (vi) the Essential Commodities (Amendment) Continuance Bill which sought to extend the life of the parent act by two years till December 31, 1971. It as well adopted a non-official resolution urging the government to route all its advertisements through Indian-controlled advertising agencies.

The following important information was provided by ministers in the two Houses during the question hour:

LOK SABHA

Machine Tools: The understanding reached between Hindustan Machine Tools, Bangalore, and Hermann Kolb Koln of West Germany for joint development and manufacture of heavy and sophisticated radial drills, progressive take-over by HMT of the manufacture of the basic machine tools production of Kolb numerically controlled drilling machines and exchange of technical personnel between the two would enable HMT to export radial drills to markets now being served by the West German firm.

Housing: The fourth Plan provision of about Rs 490 crores for housing is just a drop in the ocean. It would require about Rs 33,000 crores to provide roof to every family in the country.

Oilseed Prices: Steps are being considered to curb speculation in oilseeds and build up buffer stocks in order to check the uptrend in the prices of edible oils. Imports of edible oil costing Rs 15.2 crores have been arranged so far for 1970.

Small Units: The government is considering liberalisation of the terms of credit by nationalised banks to small-scale industrial units.

Loans to Farmers: The Reserve Bank is considering a proposal that the nationalised banks should give loans to farmers through primary agricultural co-operative societies. The nationalised banks are already helping co-operative marketing federations with liberal advances to assist distribution of fertilizers. They also buy debentures floated by Land Development Banks.

Indo-Ceylon Grid: A proposal has been made by the Ceylonese Prime Minister that, for mutual benefit, the Ceylonese and the Indian power grid systems should be inter-connected.

RAJYA SABHA

Literacy: The literacy in the country is estimated to have gone up by nine per cent since 1961 — from 24 to 33 per cent.

Crude Oil: Crude oil produced in the country during 1969 was 6.72 million tonnes valued at Rs 65.95 crores.

Coal Mines: A bill empowering the government to acquire not only coking coal mines but other coal mines also could be introduced in the current session of Parliament.

Steel Costs: The works costs of production (excluding depreciation and interest charges) per tonne of ingot steel in the integrated steel plants during 1968-69 were: TISCO Rs 320· IISCO Rs 336.95; Bhilai Rs 286.30; Rourkela D.H. Rs 316.75; Rourkela LD Rs 320.02: and Durgapur Rs 355.19.

Paper: If the paper industry does not behave properly, the government would bring the industry under control. Since paper was decontrolled, in 1968, the manufacturers, the Minister for Industrial Development, Internal Trade and Company Affairs, Mr Fakhruddin Ali Ahmed said, while giving the above threat, had increased the prices by about Rs 400 per tonne. The industry had been asked not to increase the prices in future without consulting the government.

THIS IS AN ANNOUNCEMENT AND NOT A PROSPECTUS AND PERSONS INTERESTED ARE REQUESTED TO APPLY

THE ISSUE, MANAGING BROKERS, BRO

THE AHMEDABAD ELECTR

REGISTERED OFFICE, KILLICK HO

Issue of 70,000 7-3/4% (1980) Mort

SHARE CAPITAL

AUTHORISED :

10,00,000 Shares of Rs. 100/- each Rs. 10,00,00,000

SUBSCRIBED AND PAID UP :

8,74,771 Equity Shares of Rs. 100/- each fully paid up. Rs. 8,74,77,100

PRESENT ISSUE:

70,000—7¾% subject to tax Mortgage Debentures (1980) of Rs. 1000/- each at par for cash PAYABLE IN FULL ON APPLICATION, or, in case any holder of the existing Debentures of the aggregate value of Rs. 5,00,00,000 wishes to surrender any of such Debentures held by him in exchange for the equivalent face value of the Debentures of the present issue, then on his surrendering the same along with the APPLICATION,

BOARD OF DIRECTORS :

NAME AND ADDRESS:	Occupation
Mr. Kantilal Nahalchand. "Kantilal House", New Queens Road, Bombay 4.	Merchant.
Mr. Jehangir Pestonji Patel. "Goolestan", 37, Cuffe Parade, Colaba, Bombay 5.	Cotton Merchant.
Mr. Navnitlal Sakarlal Shodhan. Near Railway Crossing, Ellis Bridge, Ahmedabad.	Businessman.
Mr. Rohitbhai Chinubhai Mehta. Ram Niwas, Ellis Bridge, Ahmedabad.	Mill Agent.
Mr. Shantanu Nanubhai Desai. 'Sharda", 1st Floor, Churchgate 'A' Road, Bombay.	Chartered Accountant.
Mr. Mohanlal Chhaganlal Kapadia. "Nirant", 14th Road, Khar, Bombay 52.	Businessman.
Mr. Jashwant Pittamberdas Thacker. Asha Mahal, 46-B, Pedder Road, Bombay-26.	Solicitor.
Mr. Arvindkumar Nandlal Kilachand. Bakhtavar, 5th Floor, Opp: Colaba P.O., Bombay 8..	Industrialist.

MANAGING AGENTS

(only up to 31-3-1970) :
Killick Industries Limited,
Killick House, Home Street, Fort, BOMBAY-1.

UNDERWRITERS

Name and Address.

Life Insurance Corporation of India, India, 'Yogakshema', Madame Cama Road, Bombay-20.

Unit Trust of India, Bombay Life Building, 45, Veer Nariman Road, Post Box No. 2000, Bombay-1.

The Industrial Credit and Investment Corporation of India Limited, 163, Backbay Reclamation, Bombay-20.

Indian Guarantee and General Insurance Company Limited, Gresham Assurance House, P.M. Road, P. O. Box No. 165, Bombay-1.

The Oriental Fire and General Insurance Co. Ltd., Oriental Buildings, Mahatma Gandhi Road, Bombay-1.

Bank of India, 70-80, Mahatma Gandhi Road, Bombay-1.

Bank of Baroda, Apollo Street, Fort, Bombay-1.

Central Bank of India, Mahatma Gandhi Road, Fort, Bombay-1.

The Andhra Bank Limited, 18-A, Hamam Street, Fort, P.B. No. 1114, Bombay-1.

The Bank of Karad Limited, 82, Nagindas Master Road, Commonwealth Building, Fort, Bombay-1.

Champaklal Devidas, Bhupen Chambers, 9, Dalal Street, Fort, Bombay.

H.P. Mehta & Co., Stock, Share & Finance Brokers, 3rd Floor, Akash Deep, Bara Khambha Road, New Delhi-1.

D. S. Purbhoodas & Co., Share, Stock & Exchange Brokers, Stock Exchange Building, Apollo Street, Fort, Bombay-1.

BANKERS TO THE ISSUE :

United Commercial Bank, Ucobank Building, D. N. Road, Bombay-1.

Bank of India, 70-80, Mahatma Gandhi Road, Fort, Bombay-1.

The Chartered Bank, Mahatma Gandhi Road, Fort, Bombay-1.

Bank of Baroda, Apollo Street, Bombay-1.

COPY OF THE PROSPECTUS FOR FULL DETAILS FROM THE COMPANY'S REGISTERED OFFICE, BANKERS TO ND UNDERWRITERS NAMED BELOW:

CITY COMPANY, LIMITED

OME STREET, FORT, BOMBAY.

ntures of Rs. 1000/- each at par.

tral Bank of India,
atma Gandhi Road,
, Bombay-1.
hra Bank Limited,
, Hamam Street,
, P.B. No. 1114,
bay-1.

The Bank of Karad Limited,
82, Nagindas Master Road,
Commonwealth Building,
Fort, Bombay-1.

MANAGING BROKERS.

Champaklal Devidas,
Bhupen Chambers,
9, Dalal Street, Fort, Bombay-1.

BROKERS :

MBAY
mpaklal Devidas,
pen Chambers,
alal Street, Fort,
bay-1.
kisondass Lukhmidass,
k Exchange Bldg., 5th Floor,
llo Street,
, Bombay-1.

. Shroff & Sons,
ock Exchange Bldg.,
llo Street, Fort, Bombay-1.

ndas & Sons,
on Bank Building,
l Street, Fort, Bombay-1.
avdas Pranjivandas,
Karsondas Natha Bldg.,
l Street, Fort, Bombay-1.

S. Purbhoodas & Co,
k Exchange Bldg.,
llo Street, Fort, Bombay-1.
mpaklal Jamnadas,
Stock Exchange New Bldg.,
llo Street, Fort, Bombay-1.

nlal J. Dalal & Co.,
Stock Exchange New Bldg.,
llo Street, Fort, Bombay-1.

TTA
, Sons & Gough Pvt Ltd.,
yons Range,
utta-1.

Stewart & Co.,
14, India Exchange Place,
Calcutta-1.

MADRAS
Paterson & Co.,
11/12, Second Line Beach,
Madras-1.
Chitra & Co..
322/323, Linghi Chetty Street,
Madras-1.

V. S. Krishnaswami & Co.,
106, Armenian Street,
Madras-1.

NEW DELHI
Harbans Singh Mehta & Co.,
33, Regal Building.
Parliament Street, New Delhi-1.

H.P. Mehta & Co.,
3rd Floor, Akash Deep,
Barakhamba Road, New Delhi-1.

BANGALORE
M. Nanjappiah Jahgirdar,
205, Cavalry Road,
Bangalore-1.

HYDERABAD
P. B. Afzulpurkar,
Sultan Bazar, Hyderabad (A.P.)

AHMEDABAD
Chinubhai Chimanlal Dalal,
Fatehbhai's Haveli,
Ratanpole, Ahmedabad-1.

LOCATION OF THE COMPANY'S UNDERTAKINGS :

The Company is engaged in the generation and distribution of electricity to consumers within the Area of Supply covered by the Licence which comprises (*a*) the area contained within a circle with a radius of six miles from the Ahmedabad Municipal Office, which admeasures or covers about 113 square miles (292·44 Sq. Kilometres) and (*b*) the new State Capital of Gujarat, the Gandhinagar Township, admeasuring about 24 squares miles (62·12 Sq. Kilometres), thus constituting an overall area of about 137 Square miles (about 354·56 Sq. Kilometres). The electrical energy distributed by the Company to consumers within its licensed area of supply is partly generated in the Company's Power House and partly received in bulk from Gujarat Electricity Board.

EXISTING & PROPOSED ACTIVITIES :

The Company does not intend to acquire any new business out of the proceeds of the issue but will utilise the same for financing capital expenditure on power distribution facilities within the area of supply of the Company and to redeem the existing debentures.

DATE OF OPENING AND CLOSING OF SUBSCRIPTION LIST :

The subscription list will open at the commencement of banking hours on Wednesday, the 1st day of April 1970 and will close at the close of banking hours on Wednesday, the 8th day of April 1970 or earlier at the discretion of the Directors but not before the close of banking hours on Saturday, the 4th day of April 1970.

PROSPECTUS AND APPLICATION FORMS :

Application forms along with copies of the Prospectus can be had from the registered office of the Company as well as from the Underwriters, Managing Brokers and Brokers, whose names are mentioned above and from the main office of the Bankers to the Issue at any of the places mentioned below:—

United Commercial Bank, Bombay/Ahmedabad/Bangalore/Calcutta/ Delhi/ Hyderabad/Indore/Madras.

Bank of India, Bombay/Ahmedabad.

Bank of Baroda, Bombay/Ahmedabad.

The Chartered Bank, Bombay.

Central Bank of India, Bombay.

The Andhra Bank Ltd., Bombay.

The Bank of Karad Ltd., Bombay.

WINDOW ON THE WORLD

European Industry and the Six

JOSSLEYN HENNESSY

LONDON:

DIFFERENCES BETWEEN 1958 & '70

IN 1958, entry into the European Economic Community was a journey into the unknown.

Although the setting up of the EEC received from the outset strong backing from industrial circles in the Six, nevertheless a number of firms had every reason to wonder what chances they would have of thriving, or surviving, in this new business environment. For example, French industry as a whole feared West German competition, and throughout the EEC structurally declining industries and small enterprises could expect new difficulties in a large customs union. But the last twelve years have seen most EEC industries — even those which seemed to be in a weak competitive position in 1958 — doing remarkably well.

There are various reasons why the Common Market has not precipitated numerous company bankruptcies, as pessimists predicted in 1958, but has, on the contrary, stimulated exceptional industrial growth in all EEC countries, but the outstanding reasons for the relatively smooth adaptation of EEC industries to the new market conditions probably were the extraordinary expansion of world trade over these twelve years and the gradualness of the lowering of customs and quota barriers.

The Way Ahead Is Clear

If "reasonable" conditions for the entry of the UK. Ireland, Denmark and Norway for EEC membership were negotiated, would this automatically accelerate industrial growth in the new member states?

The answer is, of course, that this could not be guaranteed. Even if the conditions include an adequate transitional period, further rapid expansion of world trade in the short and medium-term is by no means certain, especially in view of a possible deepening of the slow-down in the US economy. But for businessmen of the applicant countries, entry into the EEC would not be an incalculable risk because, compared EEC businessmen in 1958, they have one great advantage: they know roughly what they would be letting themselves in for. In addition, they already have experience of the large-scale EFTA market. Companies in applicant countries have also for some time been able to base their forward planning on the rules already established in the EEC, or on the guidelines for the development of EEC policies which have emerged over 12 years of EEC co-operation. Many people in prospective member states may, of course, resent that they would have to accept unconditionally rules — such as those on TVA — in the form already worked out by the present members of the EEC.

However, integration in the EEC has not yet reached the point where new member countries are unable to influence the final outcome. Indeed, only the first steps are now being made from a customs union to a real economic union. By initiatives, such as the British proposals for a European Industrial Reorganisation Corporation, new member states could participate from the beginning in framing new policies in important fields.

Trans-National Co-operation

The framing of a European company law is one of the urgent tasks for the next few years. With the increasing trend towards financial and technical co-operation as well as full mergers between companies in Europe, the corporate lobby's pressure on EEC governments to establish a common company law and corporation tax system is strong. While company co-operation agreements and mergers have so far mostly been within national borders, interest in cross-border agreements is growing fast; even medium-sized and smaller firms are becoming aware of the potential advantages of cross-border co-operation. Following an enquiry made by the French employers' federation, more than a hundred French firms have shown interests in financial or technical co-operation with West German firms. This list of "eligible" firms is now with the West German Confederation of Industry, which is seeking suitable partners.

The Six have made it clear that a European company statute, hitherto an intractable problem, can only be drawn up within the framework of the EEC. Of course, just as some larger firms in UK industry have managed to by-pass the EEC external tariff by subsidiaries in the EEC, they could doubtless find ways to draw some benefits, too, from a Eurpean company statute, even if the UK stayed outside the EEC. But it would obviously be in the interest of UK companies to be able fully to participate inside the EEC in any decisions leading to European company legislation.

II

ENLARGING THE E.E.C.

Though ardent Europeans regretted that the Six did not use their last summit meeting at The Hague enthusiastically to relaunch the concept of European unification, more realistic observers felt that the meeting resulted in a fair compromise between the advocates of an enlarged EEC and the French, with their interest in securing long-term financial support for the ailing agricultural sector. In the final analysis, however, the communique amounted only to good intentions, whose fullfilment still requires much bargaining.

The heads of state or government "reaffirmed their agreement on the principle of the enlargement of the Community. Insofar as the applicant states accept the treaties and their political finality, the decisions reached since the entry into force of the treaties, and the options taken in the field of development, the heads of state or government noted their agreement on the opening of negotiations between the Community ... and the applicant states ... They agreed that the preparatory work .. for negotiations can take place in the most convenient and most rapid period of time." The Six also conceded that "as soon as negotiations with the applicant countries have been opened, discussion will be started with such other EFTA members as may request them.."

Agreement to enter the negotiations with a common front was one of two important concessions that France's EEC partners had to make. The other — even more important — was a definitive financing arrangement for the EEC common agricultural policy by the end of 1969.

The EEC foreign ministers established six topics on which they will define a common position before they begin negotiations. The progress made by the Six towards agreement on these points will decide the date for opening negotiations. In the press conference at The Hague, it appeared that the Six have undertaken to complete their prepara-

tions by July 1, 1970, but this verbal commitment is not final. The guessing is that the Six will not open negotia-before September.

The points on which the Six are seeking to define their negotiating position are:

1. Agricultural financing regulations in the event of new member states joining.

2. Problems arising from the UK's links with the Commonwealth (in particular imports of New Zealand butter and the Commonwealth Sugar Agreement).

3. Policy on coal, steel and nuclear power (added at France's insistence because of the UK's strength in the nuclear power and coal industries and the dominant role of the British Steel Corporation).

4. The duration and nature of the transitional period leading to full membership of the applicants.

5. Modifications required in the EEC's present institutions (Council of Ministers, Commission, European Court of Justice, European Parliament, etc.).

6. Procedure governing the negotiations with the applicants.

Pragmatic Attitude

Ironically, French insistence on a common negotiating front may result in the EEC Commission playing a major role as the EEC's negotiator — a possibility inconceivable under President de Gaulle. The present pragmatic French government favours this negotiating procedure rather than multi-government meetings, as convened during the 1962/63 membership talks, since it could prevent open clashes between the present EEC partners in front of the applicants.

Though much can be said in favour of the Commission playing the role of mediator conferred on it under the Rome Treaty, its performance as the EEC's negotiator in the Dillon and Kennedy rounds of GATT and in the EEC negotiations on association or trade agreements with third countries suggests that it might prove an unwieldy negotiating partner. Although the Commission had a mandate to negotiate, it had nevertheless to gain the approval of the six governments on all important issues. Only if negotiations with the four applicants were limited to essentials would this procedure avoid the risk of becoming too cumbersome and time-consuming.

III

THE "TEN": A NEW POWER BLOC?

In a supplement to its report on the applications from the UK, Ireland, Denmark and Norway, the Commission examined the implications of an enlarged EEC, including (1) the place that Europe of Ten would occupy in world trade and (2) an inventory of the problems to be settled in membership negotiations.

Whereas the Six account at present for 17 per cent of world trade, a Community of Ten would account for 26 per cent. The Commission also reckons that an enlarged Community would be able greatly to expand its ability to take international trade initiatives, because it would be by far the biggest importer in the world.

On the 1968 figures, intra-Community trade would rise from \$28,400 million to \$41,200 million; imports from non-member countries would rise from \$33,500 million to \$46,400 million. The Commission points out that these figures do not allow for the expansion of preferential trade from the gradual elimination of customs duties and of non-tariff trade barriers within the Ten. It believes that this would contribute to economic expansion in western Europe, although growth in intra-Community trade would not be as rapid as in the EEC between 1958 and 1968 (\$6,800 million to \$28,400 million).

The Commission put forward interesting ideas on how relations between an enlarged Community and non-member countries could be developed:

1. Commonwealth countries with an economic structure and production comparable to those of the present Associated African States and Madagascar could become similarly associated, provided that the new EEC members contribute to an aid programme as now organised under the Yaounde Convention.

2. There should be uniform EEC arrangements covering all products traded with Algeria, Morocco and Tunisia.

3. The accession of new members should give a new impetus to draw up a larger scale development policy for the benefit of all developing countries.

4. The long-term solution to the problems of agricultural commodities, e.g. New Zealand dairy products, could be found only in a world-wide agreement.

5. While the US will be an exceptionally important partner, an enlarged EEC would in the long term have a better chance of putting the relations between Europe and the US on a footing of equality.

6. A common trade policy should be envisaged towards Japan.

7. The tendency to establish closer economic links between the Six and Eastern Europe might be strengthened in the Ten.

To accept the treaty establishing the European Coal and Steel Community would not affect the present nationalised ownership of the British steel and coal industries, but the EEC Commission fears that the copmetitive power of the British steel industry — its production is slightly under one-third of total EEC production — may raise problems for the Six. Specific procedures would have to be worked out by which EEC rules on publication of price lists, sales conditions and transport costs would be in plemented in the UK. In view of the similar structural problems on both sides of the Channel, the Commission foresees no problems about the operation of aid for the coal industry.

Advantages of Joint Research

Understandably, the commission underlines the advantages of a common research and technology policy, and warns that without joint efforts to improve their technological base European enterprises will face ever stiffer competition from America and Japan. On nuclear research, the Commission broaches a subject played up in the UK by anti-Marketeers: there is no clause in the Euratom Treaty requiring a new member state to make available to the others the technological knowledge it possesses at the time of its entry into the EEC, but since the UK, would have access to the Community's national and multi-national installations operating under the control of Euratom, it would be "just" for the UK to make some *contribution* — precisely what would be negotiable.

In Denmark and Norway the tax on value added already introduced would only need minor adjustment to fit the EEC system. In the UK, Mr Wilson has declared that the Labour party would adopt TVA as a consequence of EEC entry only, whereas the Tories have come out for TVA anyway. The EEC Commission lays down that new members should accept further harmonisation of taxation, including excise

duties and taxes imposed on capital movements, mergers and corporate profits.

On the financing of social security, the Commission says that firms in the EEC are concerned that UK employers and employees pay in the form of flat-rate contributions for only half of social security expenditure while the exchequer finances the other half. In the EEC at least three-quarters of social security expenditure is financed out of wage-related contributions from employers and employees, only the balance comes from public funds. Though the commission dismisses the assumption that the British system may favour business, especially in industries where wages represent a large share of value added, it nevertheless calls for an examination, industry by industry, to assess whether any distortions of competition are serious enough to require elimination under EEC rules. The same question would also have to be examined in Denmark and Norway.

Sources and Acknowledgements: The foregoing summarises, by special arrangements, a 15-page survey of preparations for the enlargement of the EEC in the latest issue of *European Trends*, published for subscribers only by the Economist Intelligence Unit (27, St. James's Place London, S.W.1.), but the EIU is responsible neither for the emphasis of my summary nor for my comments based on a variety of sources.

IV

LATE NEWS POSTSCRIPT

Since I wrote the above, Herr Willy Brandt, the West German Chancellor, has visited Harold Wilson in London. Herr Brandt's impressions of UK intentions were so favourable that he thinks negotiations could start at the end of June. He, for one, does not believe that Mr Wilson is going to "rat", as the Tories predict.

Herr Brandt told the Labour government that the Six are making good progress in working out a common front from which to negotiate. They have agreed on the transition period and adaption of the EEC's institutions (e.g. the Commission), but procedure for the negotiations remains undecided. Until recently, it was assumed (as reported above) that the Commission would conduct the negotiations. This was what the French seemed to want at last December's Hague summit, but they have now had a bright new idea.

M. Schumann, the French Foreign Minister, still talks about a "common negotiator" for the Six, but he is thinking of the President of the EEC Council of Ministers, rather than the Commission, and even Dr Watson could have deduced why as quickly as Sherlock Holmes: each country occupies the Presidency in turn for six months and by a pleasing coincidence the President will be French in the vital six months from June.

The new French idea is that President would run the ministerial sessions, setting the guidelines, while the Commission, at a much lower level, would be told to get on with the routine work between the visits of the ministers. This would ensure both that (a) the Six spoke (literally!) with one voice to the British and (b) the negotiations would be kept firmly in the hands of the governments, cutting the Commission down to the level of top civil servants.

The choice of a starting date for the negotiations is linked to the date of UK general election. If there is to be one in the autumn, there cannot be any serious negotiations in the weeks preceding it. If circles in London close to Willy Brandt were right in suggesting that he thinks negotiations could start at the end of June, the implication might be that he had formed the impression that there would be no UK election this year. If so, the possibilities for serious negotiations are even more obscure, because the alternatives seem to be: (a) If the election is to be in the autumn, an opening statement at Brussels in late June would be followed by a certain amount of ground clearing by the Commi sion before the summer recess, after which the election would hold up serious negotiations, or (b) if the election is postponed till the spring of 1971, the chances of serious negotiations this year would still look dim, because both the British and EEC negotiators would be constantly looking over their shoulders at what was being done and said in the UK, and would be slow to take any basic decisions in Brussels.

From this the deduction might be that neither Mr Wilson nor Mr Heath will make the basic problems election issues, but will allow the commission to clear the ground in readiness for who-

ever wins the election. After the election, the British and EEC negotiators might feel a compulsive need for speed if the negotiations were not to peter out in the sands before public opinions that were either increasingly apathetic or that had been mobilised into hostility.

Across the Atlantic

E. B. BROOK

VIENNA:

IT WOULD be pleasant to be able to write for once of a forward, liberal move in the "economic politics" of west Europe and the Atlantic area. Unfortunately, meetings held in Geneva, Brussels and Washington during the past fortnight make such a report impossible. On the contrary, they have emphsized the caution, suspicion and subdued hostility with which one trading group views others' activities,.

There have been no new initiatives, no approaches to wider agreements and scarcely a movement towards fuller trade liberalization unless one can accept as progressive the grudging, tepid wording of the GATT resolution. —to "consider what appropriate actions" might be taken in a few year's time to make trade in industrial and agricultural goods freer. The international trading community of GATT (the General Agreement on Tariffs and Trade) which guides some 80 per cent of world trade policy refused its director-general's proposal to tackle non-tariff barriers (some 800 of them) to trade and spent a week arriving at the most no decisions at all. The Common Market, a principal hindrance at these talks, said it was "materially impossible" to do anything until the outcome of its talks with Britain was apparent while the Americans maintained their criticism of Common Market protectionism, a criticism sharply repelled by the authorities in Brussels.

Protective Policies

What it amounts to is that, instead of having nations with protective and contending commercial policies, the non-communist industrial nations now have groups — far stronger than any nation — with protective and contending policies.

The main contention lies not between the Common Market and its quieter counterpart EFTA, nor between the Market and the communist economic group of Comecon but between the Market and the United States. The Market resents US criticism of its preferential treaties with non-member states since the volume of trade under these agreements does not exceed 10 per cent of the Common Market's total trade and, in accordance with GATT regulations, it is all with free trade zones.

The Market has expressed its concern at the deterioration in its relations with the United States but these relations have not been improved by the discussions between the parties in Washington last week. Both the USA and the Market adopted moralistic attitudes to one another and did not spare heated accusations of chauvinistic, discriminating trade policies.

It is clear enough that the recent detrioriation, which both sides admit, in Atlantic trade relations can be traced to agricultural policies. Both the USA and the Common Market find it necessary to justify externally farm policies which they admit are extremely expensive and ineffective. Two examples will confirm this remark: the Common Market has a mountain of surplus butter which costs four times as much to produce as the price at which it is sold under almost dumping conditions, while the USA, while complaining of the Market's eccentricities, sells wheat and other cereals and cotton on world markets at a lower price than they cost to produce.

Separate Spheres

Almost all over the world the farmer and his employees are, through subsidies, cost supports and tax reliefs or exemptions, living, in fact, partly at the expense of their fellow countrymen who pay taxes. It would be better for the health of world economics if industry and agriculture could be treated as separate spheres. This separation would allow Common Market and American trade negotiators to concentrate on manufactures, the area that is growing fastest and which is far more profitable to both of them. An incidental benefit would be a sharp reduction in the political influence of politicians, unions and others representing farming interests to the exclusion of all other national interests and oblivious to international relations.

The weakness of the Common Market's position in this trans-Atlantic wrangling is that its member countries are heavily dependent on the American market. The Common Market's imports and exports account for nearly 20 per cent of its gross national product against 7 per cent for the United States. If the USA ever adopted a really protectionist attitude, as some proposals now before its Congress would provide, the Common Market would find itself in serious difficulties.

If, also, the USA and the Common Market could bring themselves to be genuinely trading partners rather than trading rivals it would be much more possible to reduce the tangle of non-tariff and other impediments to freer trade. These non-tariff barriers have become so infamous as to gain an abbreviation — NTBs; the removal of NTBs would be at least as beneficial as was the reduction of tariffs in the Kennedy Round and much more effective than cautiously amiable sentiments expressed at conferences. To name a few restrictive NTBs is to emphasize their restrictive effects — quantitative restrictions, discriminatory official procurement policies, harsh anti-dumping regulations, heavy border taxes and excessive export credit subsidies.

Meagre Progress

Only in one small area have the USA and the Market made some progress— in agreeing on generalized trade preferences for industrially developing countries. The scheme will be worked by the two parties with different techniques but they will aim to achieve comparable overall effects. Each party will be alert to ensure that it does not accept too much of the burden in providing preferences. The USA will probably exclude textiles and some other products from any preferential treatment since these textiles are already making inroads in the domestic markets. It is possible also to think that a proposal for generalized preferences will have very little chance of approval by an increasingly protection-inclined Congress. The Common Market's embryo idea would give preference to some trade from an industrially developing country, but would discontinue this favoured treatment when a ceiling — which would be fixed product by product—had been reached.

A wide-open, generous attitude is not to be expected. Already there is demurring and passive disapproval of the use by developing countries of their Special Drawing Rights on the International Monetary Fund to convert them into hard cash, this is regarded as using the Right in a way almost completely opposite to that intended. Any action by those other than the wealthy, to do themselves a little

good can be depended on to attract frowning disapproval.

II

President Pompidou's US visit won overmuch publicity over protests and demonstrations and not nearly enough over its economic purpose. A visit by a French Chief of State to the USA is a comparative rarity (de Gaule went there twice, but only for funerals) and Pompidou went there because he needed to do so and because, more than any other European, he represents the Common Market and not France only.

France's position at the moment is a curious mixture of strength and weakness and its position is important internationally principally because of the dominant position of Paris in Market counsels. France is in the middle of considering its sixth five-year Plan which provides for an increase in pay of only 3.9 per cent a year (0.3 per cent less than in the last plan) though retail prices are also expected to rise less (at 3 per cent annually) than they have in the last five years. Unemployment is expected to decrease by 92,000 owing to an increase in industrial training and social security is to get about another 3,700 million francs. The French consider their social security system the most complete in Europe but 2 million old people still do not have enough to live on and families with low incomes do not get enough help.

The fact is that France, despite its achievements and prominance under de Gaulle, its great influence in the Market and its resistance to US commercial enterprise has achieved as yet no more than a fragile recovery from its economic imbalances and is not yet clear of inflationary dangers. The French Finance Minister has let it be known that he will not be driven into relaxing the present credit squeeze by the first indications that the new five-year Plan is building up the economy's resources. Prices and wages are still climbing steadily, if more slowly than in many other places, and the government has to resist French industrialists' insistence on a rapid return to a high level of investment which, it fears, would bring on inflation sharply once again.

President Pompidou was therefore in the United States, which itself shows no signs of having found a check to trade recession, as Head of a State recovering slowly from an over-delayed devaluation of its currency, one still fighting inflation and, above all, one still in the earlier stages of trying to turn an uneconomic, extremely large and unprogressive agricultural economy into a predominantly industrial one. Whereas West Germany is experiencing a flight from the land into industry the obstinacy of the French peasant farmer is a major hindrance to the industrial training scheme, the root cause of the Market's agricultural policy's difficulties and the principal reason why the possible entry of Britain and others to the Market may be still further delayed.

Resistance to the US

As reported in the last article (please see *Eastern Economist*, March 6, p. 362), France rejected a proposal by the US Westinghouse Electric Corporation to acquire the French Jeumont-Schneider concern and, a little earlier, had similarly turned down the US International Telephone and Telegraph Co's attempt to buy out Pompes Guinard. Six years ago the French rejected a General Motors proposal to build a major plant in the Strasbourg area. France is also leading an effort to evolve a Common Market policy to encourage and facilitate mergers between businesses within the Market area to the exclusion of merger efforts from outside.

It might seem contradictory, therefore, for the French President to go to the USA with propositions for attracting American capital investment to his country; but so it was, this policy having been approved by the French cabinet. The new French guidelines for investors are more generous or less grudging than in the past.

The French are still prejudiced against US acquisition of existing French companies, particularly in the advanced industrial areas. But they are making an all-out effort to attract "creative" investment money — investment that goes into building new plants, especially in France's developing regions. Whereas the French rejected General Motors' proposal six years ago they are now going out of their way to encourage the Ford Motor Co. to establish a transmission plant either in the Marseilles area or in the Ardennes. Their weakened balance of payments position has increased French interest in building investment and export earnings. The campaign to sell French cars in Europe has intensified sharply.

General Prejudice

The policy in France, and generally in the Market area, is to stimulate industrial mergers within their countries or within the Market area and still to resist outright foreign takeovers. Foreign control of French industry is not much more than 15 per cent. The West Germans still prefer a more open investment policy but the general prejudice favours the French attitude.

The latest example, which may be a general pattern for the future, is the sale of the French oil company, Antar, to a French group in which the US Caltex Company (jointly owned by Standard Oil of California and Texaco Inc.) will have a 20 per cent interest. The principal stockholders will be the French government-owned ELF but the US partnership will be valuable if ELF ever decided to expand in the American market.

The moving finger writes

MR D.P. Mishra, by judicial decree, has been placed in a position which is the political equivalent of that of a chief eunuch in a harem. Since he is debarred from aspiring to a position in government, other political personages, such as Mr Y.B. Chavan and Mr Jagjivan Ram, need not be unduly apprehensive of his behind-the-scene activities. It follows that he enjoys a certain freedom of action in the political camp which is his present habitat. Even so, I doubt that the meeting he had with Mr Kamaraj last week was sought by him without the knowledge of the Prime Minister or even Mr Jagjivan Ram. The very fact that Mr Mishra was maladroit enough to deny the fact of the meeting clearly shows that the Prime Minister's camp does attach some significance to the episode.

The corridors of power-politics in New Delhi have, in fact, been buzzing for some time with reports that the Prime Minister's camp is preparing to undertake a thorough reappraisal of the present state of her party vis-a-vis other political forces in the country. An evaluation of this kind will obviously not be complete without a bid being made to probe the defences of the other Congress. It seems to me that Mr Mishra was making a tentative move in this direction when he invited Mr Kamaraj to dinner.

Mrs Gandhi, it is apparent, has become heavily dependent on communist or regional pressure groups. Her present dealings with the leftist groups are one long, nerve-racking act of playing with fire and, with West Bengal threatening to go up in flames, she is in no position to take many more chances in this direction. The issue before Mrs Gandhi now is not whether she could manage to remain as Prime Minister for the normal term of this Parliament but whether the administration can continue to pass muster as a government of any effectiveness. I am sure that she must be having some very anxious thoughts, indeed, on this score and it is apparent that some of her anxiety may vanish if she could repair to any extent the damage done to the stability of the central government by the split in the old Congress organisation.

* *

It is good that Mr Manubhai Shah may be expected to be back in Parliament shortly, this time as a Member of the Rajya Sabha. His presence in that House will greatly strengthen the Congress party in opposition. Where a positive involvement in the dynamics of industrial expansion is concerned, he is the peer of Mr C. Subramaniam or Mr R. Venkataraman and is second only to Mr T.T. Krishnamachari; and where a comprehension of the challenges and opportunities of international trade is concerned, he is inferior to none. I am indeed looking forward to his encounters with that "Everlasting Nay" in the Ministry of Industrial Development, viz., Mr Fakhruddin Ali Ahmed, and the Minister for International Trade, Mr B.R. Bhagat, who, I am sure, will be only too glad to have the benefit of Mr Manubhai Shah's informed and stimulating responses and reactions to the government's management of foreign trade.

* *

The other day I had a chance to talk to Mr B.P. Patel, the urbane Secretary in the Department of Health and Family Planning. I am glad I had this opportunity, for I was able to correct my impression or information relating to several important aspects of the progress of the family planning campaign in the country. Readers will be interested to know, for instance, that the general assumption that the loop, having proved unpopular, is being given up as a major family planning programme, is not justified. As a matter of fact, the number of loop insertions is actually going up in some parts of the country, such as Tamil Nadu. What is now happening is that this particular programme has entered a second phase of more intensive administration and is being pursued with particular vigour in those parts of the country where an adequate infrastructure of medical facilities is available for the careful medical screening of candidates for loop insertions and the provision of follow-up care.

Mr Patel was also able to help me to appreciate the very considerable impact which sterilisation has begun to make on the population problem. It is estimated that there are 35 million married couples in the country who already have three children and are capable of having more. As against this number, seven million couples in this category have already received the benefit of sterilisation, while about two million more couples are being sterilised every year. It follows that sterilisation is bound to make a very definite, if not a decisive contribution to population control in the foreseeable future. Incidentally, the fact that the rate at which sterilisations are effected is tending to go down in states such as Maharashtra, which have built up a good record in this field over the years, need not be interpreted as a sign that the campaign is faltering in such states. On the contrary, where a large number of sterilisations has already been done, the number of eligible cases is bound to show a downward tendency. What would matter is that those states, which have been laggards in this field, should now strive to achieve a really high rate of sterilisation.

I cannot write about family planning without thinking of Dr S. Chandrasekhar. At the time of writing, his chances of re-election to the Rajya Sabha (from which he is due to retire next month in the normal course) appear uncertain. When there has been so much horse-trading among the various political parties for purposes which are far less worthy, it is indeed regrettable that means could not be found for securing Dr Chandrasekhar's re-election to the Rajya Sabha. Especially after the split in the old Congress organisation, the central government has become hog-ridden with factional politics. Dr Chandrasekhar is among those small number of ministers of whom it could be said that they have something unique to contribute to their respective portfolios. I am sure that it is not beyond the ingenuity or the resources of the Prime Minister to ensure Dr Chandrasekhar's effective association with the national family planning campaign in a capacity which would enable him to contribute to its leadership.

* *

Millions of words, I am sure, will have been written in the world's press before the gates of Expo '70 at Osaka close behind the last visitor in September this year. There is already a spate of analysis of what makes the Japanese tick and I would like to share with my readers extracts from an article in *The New York Times Weekly Review* dated February 22 by Mr David L. Osborn (who, I presume, is that paper's correspondent in Tokyo) :

"Japan, in fact, is a kind of super in-group, and this is one of the secrets of her success. Other things being equal, in-groups tend to do well in competition. Japan has been able to manage its national economy almost as though the country were a single corporation. If the statistics indicate to the bankers and bureaucrats that some sector of the economy is becoming less productive, they somehow manage to hold down investment in that sector and encourage investment in a more productive sector. This makes for rapid growth. It can also be rather painful for businessmen and workers in the less productive sectors, where investment is being discouraged. Only an extraordinary acceptance of group discipline and group goals, involving ultimately a strong sense of national identity, would have made all this collective self-sacrifice possible without dictatorship. And Japan, by most objective tests, is a democracy........

"Getting ahead in the race for gross national product is in some ways more important to the Japanese than the material benefits of economic progress. People call the Japanese 'economic animals,' and you will find yourself agreeing with the description. But it is not just greed for material possessions that makes the Japanese so intent on economic success. The Japanese want their nation to move ahead as far and as fast as it can in the race for international recognition, and they have found that the world respects economic progress.....

"Anyone involved with the Japanese authorities will be struck by what may seem an absolute mania for detail. Voluminous forms to be filled out are only a beginning. After these are full, the official will produce a black notebook in which to enter whatever other data may be available. You probably won't need it, but just in case, what was your grandmother's maiden name ?

"This is Japanese pragmatism at work. Japanese decisions tend not to be made, but to make themselves, on the basis of accumulated data. As individuals, the Japanese can be as decisive as anybody; but organizational decisions are expected to represent a consensus if at all possible and the Japanese have found that, as the mountains of data accumulate, a consensus will generally build itself around the facts and the decision will almost take care of itself...........

"It was easy enough in 1953 or so to prove that today's Japan would never happen. For one thing, Japan's traditional employment practices accorded factory workers virtual lifetime tenure; payrolls could not fluctuate in pace with demand, which made for inflexibility, militated against cost-accounting and altogether seemed to insure that Japan's industry would remain backward. What the experts had failed to notice was that job security reduced resistance to innovation. If automation threatens nobody's job, no one fights it. Again, in the mid-fifties, when the Japanese economy had started moving ahead, many experts pointed to the vastly overextended credit position of Japanese industry and compared the Japanese economy to a bicycle; when it stopped moving ahead, it was sure to fall down. This inverse Micawberism, the feeling that 'something will turn down,' has not been borne out. So far, at least.

"It is fun to prove that Japan is impossible. Having done so, however, one is well advised to lie down, close one's eyes and count slowly to infinity. This allows time for more data to accumulate."

V.B.

Trade Winds

F.I.C.C.I. AWARDS

The Federation of Indian Chambers of Commerce and Industry announced its awards for agriculture, export promotion, family planning and industrial relations for the year 1969. The award for agriculture goes to Mr B. K. S. Jain, Manager, Agro-Industrial Development, Voltas Limited. Bharat Steel Tubes, Delhi, has been given the export promotion award. The family planning award goes to Hindustan Spinning and Weaving Mills and this company also got the prize for the best industrial relations. No award was given this year for research in science and technology.

F.I.C.C.I. OFFICE-BEARERS

Dr D. C. Kothari, Madras, was unanimously elected as the President of Indian Chambers of Commerce and Industry (FICCI) for the year 1970-71. At the first meeting of the committee of the FICCI held immediately after the conclusion of the annual meeting, Mr S. S. Kanoria, Calcutta, was unanimously elected as the Vice-President for 1970-71.

INDO-AFGHAN COLLABORATION

Prospects of collaborations with Afghanistan in setting up new industries were explored during talks held by the representatives of the two countries here on March 16 and 17. A high-powered Afghan team headed by Mr Amanullah Mansoori, Minister for Mines and Industry, was in the capital for talks. Mr Mansoori and some officials of the Afghan Government visited industrial centres in Bombay and Poona. At the Indo-Afghan joint talks Mr Mansoori and the Afghan experts expressed their views on the kind of industries they would like to establish in their country in the near future and the other sectors where they would like to have know-how. Afghanistan has been keen to secure our assistance for a major hydro-electric project, development of processing, canning and other agro-based industries and for setting up industrial estates. It would also welcome collaboration for conducting surveys of certain road and other projects. According to present indications, not only Indian electric and construction engineers will be associated with the Afghan hydro-electric schemes but Indian machinery and equipment will also be used on a large scale.

SETHI ON WORLD BANK BOARD

Minister of State for Finance, Mr P. C. Sethi will be India's Governor on the Board of Governors of the International Bank for Reconstruction and Development (World Bank) and IDA. The next meeting of the Board is due to take place in September.

FRENCH AID FOR AGRICULTURE

An agreement on the agricultural planning and development of the semi-arid zones of Andhra Pradesh was signed between the union government and the Government of the French Republic recently. French Ambassador Jean Dariban signed the agreement on behalf of France, and Mr B. R. Patel, Secretary, union Agriculture Department on behalf of this country. The purpose of the project is to assist this country in solving the agricultural problems in the semi arid zones of the Anantapur district of Andhra Pradesh, better use of existing irrigation works by reconditioning small dams, building distributory channels and water courses, deepening wells, providing lift irrigation and installing sprinklers and wind-breaker plantations is among the principal activities included in the project. A hydro-geological survey for locating ground water resources will also be taken up.

LONDON INTERNATIONAL BANK

A new international bank to be known as the London International Bank will start operating from next summer, subject to approval of competent authorities, it was announced recently. Founded by two American, one Swiss and one British bank, the new bank will have a registered capital of £4 million.

GUR FORWARD TRADE ALLOWED

The union government has decided to withdraw the ban on futures trading in gur with effect from March 12, 1970, it was officially announced. The ban was imposed in 1963.

METHYL METHACRYLATE AND HCN

The union government has decided to extend the last date for receipt of applications for detailed composite scheme for the manufacture of hydrogen cyanide and methyl methacrylate from February 28, 1970 to May 14, 1970.

AUTOMATIC BOTTLE MAKING PLANT

With the objective of avoiding import of automatic bottle making plant and machinery in future, the government proposes to encourage creation of indigenous capacity. Applications have consequently been invited from prospective entrepreneurs for the grant of licences under the Industries (Development and Regulation) Act, 1951, for the establishment of such capacity, for the manufacture of automatic bottle making plant and machinery and ancillaries needed for the purpose to reach the Secretary, Ministry of Industrial Development, Internal Trade and Company Affairs (Department of Industrial Development), New Delhi, before June 20, 1970.

AUTOMATION COMMITTEE MEET

The Committee on Automation, which met recently under the chairmanship of Mr R. Venkataraman, Member, Planning Commission, reviewed case studies which had been conducted in the units where computerisation or automation had been introduced. The committee was set up in 1969 to review the total effects of operation of automation in the enterprises in public and private sectors in which it had been already introduced. The committee decided that further studies should be undertaken in a few public and private sector units in order to obtain additional information on the impact of automation on the extent and pattern of employment, wages and earnings. The committee felt that comparative data could also be collected in relation to production costs, labour saving devices, and management in the context of automation.

HAL NEW PLANES

The Hindustan Aeronautics Ltd is presently engaged in developing a new military aircraft for the Indian Air Force, according to the annual report of the company. HAL has also taken up studies to manufacture modified versions of the MIG-21 and HF-24 planes. The report further reveals that the company is exploring the possibility of producing some other type of transport aircraft as a successor to HS-748. It says the government has decided to transfer to HAL responsibility for the supply of spares to the Air Force and provisioning of spares for IAF's repair and overhaul tasks.

SUGAR MILL TAKEOVER STAYED

The Supreme Court stayed on March 12, 1970, the operation of the Uttar Pradesh Government's order for the takeover of a Bulandshahr sugar mill and issue the state a rule nisi to show cause why the order should not be quashed. The order was issued on a writ perition filed by the proprietor of the mill challenging the Government's action. Mr Yogeshwar Prasad, counsel for the petitioner, contended that Sec. 20 of the Industries Development and Regulation Act prohibited such takeover. He contended that the Government's action was politically motivated and violative of the constitutional guarantees.

EXCISE DUTY ON TV SETS

The television manufacturers in this country (J.K. Electronics, Telerad Pvt Ltd, Polester Electronics Pvt Ltd and Telestar Television Industries Pvt Ltd) have expressed concern regarding recent budget proposal of levy of excise duty at the rate of 20 per cent *ad valorem* on television receivers. In a press conference they pointed out that in January last, at a meeting convened by the Secretary, Defence Supplies, they had indicated that they would make available during the year 10,000 to 15,000 TV sets and had also indicated that after the teething troubles were over and with the increased volume of business, there would be an automatic reduction in cost and prices would come down so as to enable more people to own TV sets. The size of TV receivers is also likely to undergo a major change because of development of solid state techniques and use of 19" tube, manufactured by Bharat Electronics Ltd., a public sector undertaking. This would enable the larger public to avail of these sets. It is at this stage, they stated, when the industry is only in the initial stage the excise duty at the rate of 20 per cent *ad valorem* has come as a crushing blow. A TV set duly installed at the premises in Delhi, costs to a customer about Rs 2,450 and with the proposed levy, it would cost Rs 2,868/-. This would deter a number of customers from going in for TV sets, and the local manufacture of TV sets would be retarded and may come to a stop, they added.

AGRICULTURAL WEALTH-TAX

Wealth-tax would be chargeable on agricultural land from April, 1, 1970. To tackle the extra work-load, the Income-tax Department is being strengthened at various levels. Four new Commissioners of Income-tax, one each in Delhi, Bhopal, Hyderabad and Ahmedabad are being appointed for the purpose. Consequent upon these appointments, there will be changes in the jurisdiction and work of some of the existing Income-tax Commissioners.

DIVERSIFICATION OF KOTA PLANT

It is felt that the diversification programme at the Instruments Plant at Kota, now agreed to between the project authorities and the Soviet collaborators, would help make the plant economically viable. The company was incorporated in March, 1964 for manufacturing industrial process control instruments. The financial and technical assistance was to be provided by the Soviet Union. The original plan was to have two units in the public sector, one at Kota

and the other at Palghat, but the latter was postponed due to resource difficulties. As a result, certain secondary instruments, which formed the production programme of the Palghat plant had to be incorporated in the Kota unit's manufacturing programme to enable it to supply instrumentation systems to steel plants, thermal power stations and fertiliser plants on a turnkey basis.

BONUS ACT AND PUBLIC SECTOR

The Madras High Court has held that the payment of Bonus Act would not apply to employees of an establishment engaged in any industry carried on by or under the authority of any department of the central government, state government or a local authority. Allowing a writ petition filed by the Director of Industries and Commerce, Tamil Nadu the court quashed the orders of the labour court of four per cent, of the wages of the employees, employed in the textile mill parts unit of the government of Tamil Nadu located in the Industrial estate at Madurai. The petitioner contended that the labour court erred in holding that the concerned industry, run by the local government, was covered by the Payment of Bonus Act and contended that under Section 32(IV) of the Act, it does not apply to employees of an establishment engaged in any industry carried on by or under the authority of any department of the central government or state government or local authority.

EXPO-70

The Emperor Hirohito of Japan formally opened Expo-70 on March 14, at Osaka. The crown prince Akihito pressed the button and a large ball hung over the audience split with a roar showering coloured comfetti and paper cranes on the guests. A group of 50 & Japanese Diet members were among the first visitors to the Indian pavilion which has opened a part of its show. The Indian pavilion is in a 6000 sq. metre peripheral plot.

BANNED LISTS SUSPENDED

The union government decided on March 14, to scrap the banned lists which specified the industries where licences were used to be denied. The lists however, will remain suspended for only six months on an experimental measure. If the experiment succeeds this will become the permanent feature.

WEST GERMAN BANK RATE

The West German Central Bank recently raised the bank rate from six to a record 7 5 per cent.

BATA EXPORTS

Bata-India has an impressive export record earnings increasing from Rs 1·7 crores in 1965 to Rs 4·64 crores in 1969. Despite stiff competition from Japan and Hong Kong, the company has not only maintained its traditional markets but expanded its sphere to other countries and hopes to do better in the current year.

CHEMICAL MANUFACTURERS' PROBLEM

Mr M.L. Seth, President, Indian Chemical Manufacturers' Association stated that excise duty on certain raw materials like carbide used in the manufacture of PVC would adversely affect the cost of production and make carbide-based units incompetitive. Similarly, the duty on synthetic rubber would push up costs of rubber-based industries. Mr Seth stated that the excise duty exemption on mixed fertilisers manufactured from duty-paid basic fertilisers was a correct step as this would encourage the production and consumption of mixed fertilisers which provided several advantages. However, it was desirable that the exemption from duty was also available to the super-phosphate industry, operating presently at 50 per cent capacity only. The industry should be provided protection by a basic import duty on the imported phosphatic fertilisers. Fuller utilisation of capacity would reduce imports and increase employment. Referring to the pharmaceutical section Mr Seth pointed out that the recent attempt of the government at controlling drug prices at unremunerative levels was likely to have an adverse effect, on the growth of the industry. He, however, appreciated the need for making drugs available to the common man at reasonable prices, but emphasised that the health of the industry was equally important.

Mr Seth also laid stress on export promotion effort. The export of chemicals from this country, he added, had increased from Rs 10 crores in 1960-61 to Rs 21 crores in 1968-69. The ICMA had established an export promotion group for attending to the problems connected with exports. The association had also a proposal to send a delegation to some of the South-East Asian countries and Australia. He expressed the hope that the chemical industry, given the necessary facility, would raise its export performance substantially.

EXPANSION OF EXISTING UNITS

Following the two notifications issued by the Ministry of Industrial Development on February 19, 1970, clarifying the new industrial licensing policy (published in this journal on February 27, a third notification (S.O. IDRA/29B/70/(3) has now been issued clarifying the procedure to be followed under the new policy for the expansion of the existing units. To some extent, this notification modifies the notification S.O. IDRA/29 B/70/1, which explained the licensing system.

The new notification says that so far as the expansion of industrial undertakings is concerned, the central government would exempt from the operation of Clause (d) of sub-section (1) of section 13 of the Industrial (Development & Regulation) Act and the rules made thereunder, all industrial undertakings registered under the said act or in respect of which licences or permission have been issued under that Act, which have fixed assets in land, buildings, plant and machinery in value not exceeding Rs 5 crores.

Provided that no such industrial undertakings shall be eligible for exemption :

1. If the value of the said fixed assets after substantial expansion exceeds, at any stage, Rs 5 crores, or

2. if it belongs to or is controlled by any larger industrial house as classified by the Industrial Licensing Policy Inquiry Committee in the list at Appendix II-A (I) of its Report, as amended by government from time to time; or

3. if it is a foreign company or a branch or subsidiary of a foreign company; or

4. if it falls under the category of dominant undertakings, as defined in clause (*d*) of section 2 of the Monopolies and Restrictive Trade Practices Act, 1969;

5. if it relates to any of the industries listed in schedule I of the notification S.O.IDRA/29/70/1; or

6. if it requires more than the equivalent of Rs 10 lakhs or more than 10 per cent of the value of the increase in fixed assets in land, buildings, plant and machinery by way of foreign exchange for import of machinery and equipment, whichever is less, or may ordinarily require foreign exchange for the import of raw materials, components and the like: or

7. if it relates to any of the industries listed in Schedule II of the Notification S.O./IDRA/29B/70/1; or

8. if it relates to certain basic, strategic and critical industries listed in the core industries (Annexure I to the New Industrial Licensing Policies Statement);

Provided further that the aggregate value of the substantial expansion, whether in one stage or more than one stage, of any industrial undertaking under the exemption contained in this Notification, shall not exceed rupees one crore.

Eastern Economist 25 Years Ago

MARCH 23, 1945

One of the fundamental principles of post-war planning, on which emphasis has been rightly laid by the public and reinforced by Sir Ardeshir Dalal, is that of decentralization and regionalism in industrial development. The dangers of excessive concentration are now widely recognized; considerations of strategy, social costs as opposed to private costs which do not take account of the full costs of production, the policy of full employment of resources and labour have all forcefully brought out the need for a wider distribution of industry than had been the case before the war. The lack of diversification of industry in a centre has accentuated the evil effects of a depression, while it has been found that attempts to draw off labour to other centres are just useless because the capacity of the latter to absorb additional labour in times of universal depression is nil. Apart from the above, the wisdom of seeking to improve the mobility of labour and constantly to get it moved from one region to another is questioned and it has been asked whether it is not more desirable for some conscious attempts to be made with a view to bringing industry to certain regions and restricting the growth of too large aggregations of the people. All these considerations have invested the problem of industrial location with more than ordinary interest everywhere.

Company Affairs

AHMEDABAD ELECTRICITY CO.

THE AHMEDABAD Electricity Co., Ltd., will enter the capital market on April 1, 1970, with an issue of 70,000 (7-3/4 per cent) (1980) mortgage debentures of Rs. 1000 each at par. The issue will close on April 8, or earlier at the discretion of the directors but not before April 4. The company has an authorised capital of Rs 10 crores and subscribed and paid up capital of Rs 8·75 crores. The issue has been underwritten by Life Insurance Corporation of India; Unit Trust of India; The Industrial Credit and Investment Corporation of India Ltd.; Indian Guarantee and General Insurance Co. Ltd; The Oriental Fire and General Insurance Co Ltd., Bank of India; Bank of Baroda; Central Bank of India; The Andhra Bank Ltd., The Bank of Karad Ltd.; Champaklal Devidas; H.P. Mehta & Co., and D.S. Purbhoodas & Co. The company is engaged in the generation and distribution of electricity to consumers within the area of supply covered by the licence which comprises (a) the area contained within a circle with a radius of six miles from the Ahmedabad municipal office, which covers about 113 square miles and (b) the new state capital of Gujarat, the Gandhinagar Township about 24 sq. miles thus constituting an overall area of about 137 square miles. The electrical energy distributed by the company to consumers within its licensed area of supply is partly generated in the company's power house and partly received in bulk from Gujarat Electricity Board. The company does not intend to acquire any new business out of the proceeds of the issue but will utilise the same for financing capital expenditure on power distribution facilities within the area of supply of the company and to redeem the existing debentures.

MARTIN BURN

THE working of Martin Burn Ltd, during the year ended September 30, 1969 has resulted in a net profit of Rs 26·48 lakhs after providing Rs 3·45 lakhs for depreciation, Rs 24,100 for development rebate reserve and Rs 30 lakhs for taxation. Sales increased to Rs 7·64 crores from Rs 6·26 crores. Managing agents' and secretaries' remuneration is around Rs 37·64 lakhs. The directors have transferred Rs 22·50 lakhs to general reserve. They have proposed an equity dividend of 10 per cent which will absorb Rs 22·07 lakhs, paid from the general reserve. As the company's business as managing agents will cease in April, 1970, the directors have embarked on new ventures with a view to partially recouping the agency commission. The company has acquired the licences and undertaking of the Fyzabad electric and the Jaunpur electric. The profits accruing from these investments will be reflected in the current year.

BOMBAY DYEING

The Bombay Dyeing and Manufacturing Co Ltd, has reported a net profit of Rs 20·23 lakhs during 1969. Sales are around Rs 21·56 crores. The allocation include depreciation Rs 105·60 lakhs, taxation Rs 6·30 lakhs, managing agents' remuneration Rs 3·15 lakhs and development rebate reserve Rs 23 lakhs. General reserve No. 2 gets Rs 5·80 lakhs. The interim dividends will absorb Rs 14·45 lakhs. The directors state that the production was adversely affected in the first six months of the year by a 16 per cent cut in electric power and high absenteeism of weavers. They fear that the continuous rise in cotton prices will push up the production costs and it will be difficult for mills to effect sales of cloth at prevailing cotton prices. Export in 1969 amounted to 31·18 million yards valued at Rs 6·69 crores. The company's largest item of exports to the UK sheets and sheetings, suffered as a result restrictions imposed on it. The decision of the British government to impose from January 1, 1972, an import duty of 15 per cent on goods from India and to scrap the quota system will further hit the exports, the directors fear. The company has also exported yarn worth Rs 2·81 lakhs.

E.I.D. PARRY

The directors of E.I.D. Parry Ltd have reported that during the year ended September 30, 1969 the company's sales of fertilisers increased by 30 per cent in spite of unfavourable climatic conditions and large stocks of imported material. The production of superphosphate was maintained at a satisfactory level. Despite difficulties, the Ennore factory operated at a slightly higher level and produced a complex fertiliser which was marketed successfully. The sales of the products of the Coromandel Fertilisers Ltd were effected at a much higher level. The company's sugar factory crushed 608,861 tonnes of cane and produced 48,056 tonnes of sugar with an average recovery of 7·89 per cent, the figures for the previous season being 537,756 tonnes, 44,910 tonnes and 8·35 per cent respectively. Sales of chemicals, spirits and carbonic acid gas continued to be satisfactory. The turnover in respect of ceramics established an all-time record with a substantial increase in exports. The pre-tax profit of the company for the year dropped to Rs 85·49 lakhs from Rs 2·67 crores for the previous year. With taxes claiming Rs 56·79 lakhs, the net profit amounted to Rs 28·70 lakhs against Rs 1·81 crores.

CANARA BANKING

The Canara Banking Corporation Ltd in 1969 has revealed a profit of Rs 6·80 lakhs. While deposits have increased by Rs 1·52 crores to Rs 21·34 crores, the bank's total advances have risen to Rs 14·42 crores. The equity dividend is higher at 12 per cent absorbing Rs 3 lakhs. Out of the profits, a sum of Rs 2·15 lakhs is transferred to the statutory reserve fund thereby raising it to the level of the paid-up capital which is Rs 37·50 lakhs.

BANK OF MAHARASHTRA

Deposits of the Bank of Maharashtra increased by over Rs 14 crores and stood around Rs 87 crores in 1969. Since nationalisation, there has been an increase of more than Rs 9 crores in deposits. Advances during the year went up by Rs 15·23 crores, of which priority sectors like small-scale industries, agriculture and export got Rs 7·27 crores. The bank's advances to small-scale industries now account for 26 per cent of the advances. The bank opened 27 branches during the year. It has now a net work of 177 branches, of which 105 branches are in rural and semi-urban centres. The bank has introduced the following special schemes after nationalisation : (1) assistance to medical graduates to set up own practice, (2) financing transport operators (3) financial assistance to technically qualified people for setting up industries, (4) assistance to small retailers and (5) assistance to students for higher education.

SARU ENGINEERING

Saru Engineering Corporation Ltd, proposes to issue for public subscription 4,000 (9·5 per cent) cumulative redeemable preference shares of Rs 100 each and 19,600 equity shares of Rs 25 each. The entire public issue has been underwritten. The company has an authorised capital of Rs 1·50 crores (Rs 35 lakhs in preference and Rs 1·15 crores in equity shares). The present issue is for Rs 13·30 lakhs, of which equity shares of Rs 3·79 lakhs have been reserved for directors and their friends and employees of company. The company proposes to set up an aluminium alloys project at Meerut (UP). Construction of the factory building is expected to start soon. The capital outlay on the project is estimated at Rs 45 lakhs, which will be met by share capital loan from the UP Financial Corporation, deferred payment (Rs 3·19 lakhs), bank borrowings (Rs 14 lakhs) and deposits and advances by directors (Rs 31,000).

PHILLIPS CARBON

Phillips Carbon Black Ltd, has declared a dividend of 15 per cent for the year ended November, 1969. It has also proposed to capitalise Rs 18·75 lakhs from reserves to issue one fully paid bonus share for every existing ten shares. The bonus shares will rank for dividend from the current year. The company has reported a gross profit of Rs 117·24 lakhs against Rs 92.38 lakhs in the previous year.

CEAT TYRES

Ceat tyres of India Ltd recorded a gross profit of Rs 2·61 crores for 1969 compared to Rs 2·37 crores for 1968 and Rs 1·62 crores for the previous year. Its sales have risen further to Rs 23·09 crores from Rs 21·05 crores for 1968. The company's board did not take a decision on the equity dividend for the year but decided to meet again for the purpose. The company had maintained its equity dividend for 1968 at the previous year's level of nine per cent, but issued bonus shares in the ratio of one share for every share held. Out of the gross profit, depreciation claims Rs 39·50 lakhs, taxation Rs 1·15 crores and development rebate reserve Rs 4·39 lakhs, leaving a higher net profit of Rs 1·02 crores against Rs 85·78 lakhs. This surplus has been disposed of by transferring Rs 91·81 lakhs to the general reserve and Rs 10 lakhs to the dividend equalisation reserve.

GOODYEAR

Goodyear India Ltd, has earned a pre-tax profit of Rs 2·90 crores in 1969 against Rs 2·76 crores in 1968, following a rise in sales to Rs 28·73 crores from Rs 27·16 crores. A higher equity dividend of 17·5 per cent, has already been declared against 15 per cent paid for 1968. The directors have proposed to provide Rs 1·32 crores for taxation and Rs 8 lakhs for development rebate reserve, leaving a net profit of Rs 1·40 crores against Rs 1·34 crores. The proposed dividend will claim Rs 44·43 lakhs against Rs 38·08 lakhs.

INDIAN WOOD PRODUCTS

The Indian Wood Products Co Ltd, has reported a profit of Rs 6·60 lakhs for the year ended September, 1969 against Rs 4·20 lakhs in the previous year, after providing Rs 75,285 for depreciation and Rs 8·28 lakhs for taxation. General reserve gets Rs 5·27 lakhs. An equity dividend of 16 per cent, including an interim

of 4 per cent has been declared against 9 per cent in the previous year.

CAREW

Carew and Co. Ltd, has suffered a set-back in its working for the year ended September 30, 1969. There has been a fall in the gross profit from Rs 32·54 lakhs to Rs 5·58 lakhs. The directors propose, therefore, to skip the ordinary dividend for the year. Sales have gone down from Rs 3·36 crores to Rs 3·14 crores and closing stocks are placed higher at Rs 70·67 lakhs against Rs 39·72 lakhs. After providing Rs 7·24 lakhs for depreciation, Rs. 155 for taxation and Rs 3·03 lakhs for development rebate reserve there is a loss of Rs 4·69 lakhs against a profit of Rs 12·35 lakhs.

A sum of Rs 5·36 lakhs has been transferred from the general reserve. The proposed dividend on preference share will absorb Rs 67,600. The directors propose to issue bonus shares, subject to government's sanction, by capitalising a sum of Rs 4 lakhs out of the general reserve. The company issued bonus shares last year also by capitalising Rs 4 lakhs out of its general reserves.

The directors state that the working results in the current season will depend upon the levy sugar price fixed for the factory. If this is inequitable, the directors will consider filing another writ petition, or taking other legal procedures to seek relief. The Asansol distillery continued to suffer from an acute scarcity of molasses during 1968-69. The Rosa distillery had a more satisfactory supply of molasses but, unfortunately, in UP several new licences were granted for IMFL manufacture and large industrial alcohol distilleries started marketing very cheap IMFL.

DHUMSERI TEA

After providing Rs 167 lakhs for depreciation, Rs 11,000 for development rebate reserve and Rs 38,351 as managing agents' commission, the company has earned a profit of Rs. 3·07 lakhs in 1969 against Rs 4·15 lakhs in the previous year. Taxation absorbs Rs 1·25 lakhs, while the capital reserve and general reserve get Rs 9,520 and Rs 1·05 lakhs respectively.The dividend on equity shares has been maintained at 10 per cent. on increased capital, absorbing Rs 1 lakh while the dividend on preference shares has also been maintained at 10 per cent, claiming Rs 12,000.

During the year, Rs. 22,838 has been written back as excesss depreciation no longer required and Rs 15,765 as liabilities no longer required. Sale proceeds of tea amounted to Rs 27·29 lakhs against Rs 29·34 lakhs.

During the year the estates has produced 420,000 kg of tea, the average salable price being Rs 6·41 per kg. The comparative figures for the previous year were 459,000 lakh kg. and Rs 6·47 per kg.

The company exported tea worth Rs 4·5 lakhs against Rs 11 lakhs in the preceding year.

SEN RALEIGH

Mr Abhijit Sen, Chairman of Sen-Raleigh Ltd, told the shareholders recently that there are many indicators of a future that could be more stable. The benefits of easing of labour unrest, he added, may not be fully realised in the current year. There are difficulties in getting steel supplies and their prices have also gone up. A case for a price increase of bicycles has been put up to the government early this year, he added. The bicycle industry he pointed out, stands to lose Rs 27 lakhs per month in revenue, a figure which far exceeds the profits it can make. Until prices are readjusted the industry will continue to pass through a critical phase. However, after a period of slackness the bicycles market in the country is picking up. The company in its turn plans to make up the lost ground in the current year. It has received a licence to manufacture mopeds. During the year ended September 30, 1969, sales of the company amounted to Rs 8·13 crores. The net profit is lower at Rs 21,776, equity dividend has therefore, been passed over.

DUNLOP

Dunlop India Ltd, has reported satisfactory results for 1969. The net profit has increased from Rs 6·01 crores to Rs 6·99 crores, after providing Rs. 1·12 crores for depreciation. A taxable ordinary dividend has been raised from 17½ per cent to 20 per cent, including an interim of 7½ per cent. Taxation absorbs Rs 2·83 crores and development rebate reserve Rs 45·47 lakhs. Sales are up from Rs 70-71 crores to Rs 81·32 crores. Preference and ordinary dividends paid absorb Rs 2·05 crores, leaving a balance of Rs 1·65 crores which will be transferred to general reserve. The company made good progress during the year and with continued good demand for its products, the total income rose by 15·1 per cent to Rs. 81·74 crores.

MYSORE SUGAR

The working of the Mysore Sugar Co. Ltd, during the year ended June 30, 1969 has resulted in a net profit of Rs 26·43 lakhs against a loss of Rs 38·27 lakhs in the previous year, after providing Rs 23·85 lakhs for depreciation and Rs 39·77 lakhs for development rebate reserve. After making some adjustments, a sum of Rs 15·83 lakhs has been transferred to general reserve. The directors have proposed a final dividend of 10 per cent for the year. Together with the 10 per cent interim dividend already paid, the total dividend will be 20 per cent and will absorb Rs 10·82 lakhs. Production of sugar fell short of estimate by about 15,000 tonnes as the factory was deprived of a third of the contracted sugarcane, which was diverted to the manufacture of jaggery. Following the improvement in the supply position there was a steady fall in open market sugar prices. The company crushed 246,000 tonnes of cane and produced 26,304 tonnes of sugar. The new, 7,000-gallon distillery was commissioned in October, 1968. Due to the improvement in the supply position of molasses, alcohol production increased to 60,002 hecto litres from 28,231 hecto litres. The newly erected acetic acid plant was commissioned in August, 1968.

CENTRAL BANK

Central Bank of India has introduced a new cash round the clock scheme in collaboration with Burmah-Shell for the common man in Bombay. The object of this scheme is to provide emergency funds for the public round the clock by encashment of special emergency vouchers at Central Bank of India branches during office hours and at select Burmah-Shell service stations in Bombay after office hours. Emergency vouchers can be purchased from any branch of the bank in denominations of Rs 50 and Rs 100. The select Burmah-Shell service stations will encash such vouchers subject to a maximum of Rs 100 at a time per person. This service is free.

EAST INDIA HOTELS

The East India Hotels Ltd, has decided to issue rights ordinary and preference shares. The rights issue is proposed to be made in the ratio of one for every two shares held. A bonus issue is also proposed to equity holders in the ratio of two shares for every three held, subject to sanction by the Controller of Capital Issues. As the bonus shares will be issued after the allotment of rights shares, allottees of the new rights shares will also be entitled to bonus shares. The company's authorised capital has been increased from Rs 3 crores to Rs 4·5 crores. The directors are confident of maintaining the equity dividend which is expected to be free of tax.

UNITED MOTORS

United Motors (India) Ltd, has stepped up the equity dividend from Rs 1·75 to Rs 2 per share, subject to tax for 1969. It has also decided to issue shares in the ratio of one share for every six shares held.

UNIT PRICE

The Unit Trust of India has raised the sale and repurchase prices of its units by 10 paise each with effect from March 4, 1970. The sale and repurchase prices of units have been fixed at Rs 10·95 and Rs 10·55 per unit, respectively.

CAPITAL AND BONUS ISSUES

Of the 11 companies permitted by the government to raise capital, Hindustan Motors and seven others have been allowed to issue bonus shares totalling Rs 5·21 crores.

Hindustan Motors Ltd, Calcutta, has been accorded consent to capitalise Rs 2,19,42,010 out of its general reserves and issue fully paid equity shares of Rs 10 each as bonus shares in the ratio of one for five equity shares held.

The K. C. P. Ltd, Madras, has been accorded consent to capitalise Rs 1,16,74,580 out of its general and capital redemption reserves and issue fully paid equity shares of Rs 10 each as bonus shares in the ratio of 17 for every 20 equity shares held.

Hindustan Wires Ltd, Calcutta, has been accorded consent to capitalise Rs 32,50,000 out of its general reserves and issue fully paid equity shares of Rs 10 each as bonus shares in the ratio of one for every two equity shares held.

V. S. Dempo and Company Private Ltd, Goa, has been accorded consent to capitalise Rs 25,00,000 out of its general reserves and issue fully paid equity shares of Rs 1,000 each as bonus shares in the ratio of one for four equity shares h ld.

Carborundum Universal Ltd, Madras, has been accorded consent to capitalise Rs 95,40,000 out of its general reserves and share premium and issue fully paid equity share of Rs 100 each as bonus shares in the ratio of nine for ten equity shares held.

The Tiles and Pottery Works Company Ltd, Baroda, has been accorded consent to capitalise Rs 1,03,240 out of its general reserves and issue fully paid equity share of Rs 10 each as bonus shares in the ratio of one for two equity shares held.

Coffee Lands Ltd, Pollbetta (Mysore), has been accorded consent to capitalise Rs 6,00,000 out of its general reserves and issue fully paid equity shares of Rs 10 each as bonus shares in the ratio of one for five equity shares held.

Hindustan Sanitaryware and Industries Ltd, Calcutta, has been accorded consent to capitalise Rs 23,99,080 out of its general reserves and issue fully paid equity shares of Rs 10 each as bonus shares in the ratio of 12 for every 25 equity shares held.

COMPANY MEETING

The Chartered Bank Group

Chairman, Mr. W.G. Pullen's Statement

The following are extracts from the Statement by the Chairman, Mr. William George Pullen, to be presented at the Annual General Meeting of The Chartered Bank on 8th April, 1970, at 38 Bishopsgate, London E.C. 2.

Since my statement a year ago we have taken a momentous step in merging with our good friends, The Standard Bank Limited, and The Chartered Bank is now a wholly owned subsidiary of Standard and Chartered Banking Group Limited. Such a change of status after 116 years of independence, during which the bank passed through many vicissitudes, including two world wars, and emerged strong and successful, caused inevitably a measure of nostalgic regret in a loyal staff past and present, and we believe in many customers and stockholders too. However, this is the day of larger and larger banks giving the widest range of services to, amongst others, the huge international operating companies, and with our merger we become part of an organisation with more than double our capital, reserves and balance sheet figures, and with a correspondingly increased geographical coverage. Above all, The Standard Bank Limited make ideal partners for we are both British overseas banks steeped in the same tradition, handling the same type of business and yet we complement each other and do not overlap in our world branch system. Finally, and this we, and I am sure our connections at home and overseas, cherish most of all, The Chartered Bank will continue to operate as it has through the years giving the same service with the same staff to our customers and our host countries.

Turning now to our fortunes in 1969, we passed through a year which, not unusually for a bank established in so many countries, was always eventful and yet fundamentally less worrying than its predecessors because of the steady strengthening of sterling and the general more stable conditions of world currencies once the parity of the French franc and the Deutschemark had been adjusted. It was relief to be able to cover the exchange risks of our overseas importers and exporters without undue risk to ourselves and we were able even to take our part dependence on expensive money in our stride, which meant that with increased commercial activity and higher commodity prices in our area we experienced a very successful trading year.

At home we reluctantly had to relinquish our investment in Financings Limited following a merger, but fortunately our relationship with the Hodge Group has been even closer and is developing in the promising manner we had anticipated.

In Europe by the establishment of a bank in Zurich in collaboration with Christionia Bank og Kreditkasse, Oslo, and Bankhaus Conrad Hinrich Donner of Hamburg under the name of Anglo Nordic Bank Limited, and in Rotterdam a bank in the name of European and Overseas Trading Bank N.V. also with Bankhaus Conrad Hinrich Donner as a partner, we are pursuing our policy of giving the fullest services to our branches overseas and to our International Banking Division in London.

The Allahabad Bank Limited

In the pursuit of a socialistic ideology the Indian Government considered it advisable and necessary to nationalise all locally registered banks having deposits in excess of Rs 50 crores and the assets and liabilities of our affiliate in India were taken over by the Government with effect from 18th July 1969. Although the Government's decision in this regard is being challenged in the courts the figures of our former affiliate have been excluded from our consolidated balance sheets and we now await results of our claim for the payment of compensation. India has always punctiliously honoured its overseas obligations, and we confidently expect to be reimbursed in sterling for monies we have invested from this country in the Allahabad Bank Limited.

This Year's Accounts

Owing to the nationalisation of Allahabad Bank Limited, to which I have already referred, the assets and liabilities of that bank are not included in our consolidated balance sheet. The balance sheet totals of Allahabad Bank for 1968 were £73 millions and, in view of the elimination of figures of this size from our group accounts for 1969, I am pleased to be able to report that our consolidated balance sheet totals have increased by £27 millions to £935 millions. Current, Deposit and Other Account have decreased by £12 millions but if the comparative figures for 1968 were adjusted to allow for the deposits of Allahabad Bank there would be an increase of £51 millions.

The rights issue to stockholders in January 1969 increased the Bank's issued capital to £9,680,000. The premium amounting to £2,117,500 resulting from the issue has been credited to the Reserve Funds. After an adjustment to the Reserve Funds due to the exclusion of Allahabad Bank's figures, the Bank's capital and consolidated published reserves together with the balance on profit and loss account now total £29,163,910, an increase of £4,118,899.

Profits and Dividends

After making the usual provisions and deducting minority interests in subsidiaries, the consolidated net profit for the year is £2,960,210 an increase of £482,803 on the previous year. At the halfway stage we reported that profits were slightly below the comparable figures for the first half of 1968 and the improvement now shown is due to an increased volume of business in the second half of the year which improved our profitability, especially in our overseas branches and subsidiaries.

With the balance of profit brought forward from last year of £989,776 the amount available for distribution is £3,949,986 out of which £1,082,364 has been transferred to Reserve Funds and £370,000 to Reserves for Contingencies. The interim dividend of 7½% paid on 26th September 1969 absorbed £726,000 and a second interim

dividend of 7½% payable on 27th February 1970 makes the total for the year 15%, the same as for the previous year. The balance to be carried forward to 1970 will then be £1,045,622.

India

Externally the year, particularly in the early weeks, was uneventful. China was pre-occupied with its Soviet borders and Pakistan had no time for other than its internal problems and a few straws in the wind created cautious optimism, which has however evaporated with the realisation that many of the Prime Minister's more recent appointments will pursue an Eastern bloc orientated policy to the detriment of the West.

Industry is beginning to recover slowly from its recession although substantial capacity still remains idle. There is a serious shortage of raw materials and an acute lack of steel whilst widespread labour unrest has proved particularly harmful to the tea and jute industries. The unsettling effect of the nationalisation of the commercial banks, followed by a resolution passed at the plenary session of the ruling Congress Party in Bombay in December calling for the nationalisation of general insurance and state control over the bulk of the import trade, together with the recommendations of the 'Dutt' committee designed to disperse concentrated wealth and economic power, have made many industrialists prune investment programmes and curtail plans for expansion. For a long time such momentum as existed in the economy was generated by the private sector and the present switch to extreme left-wing socialism can only be detrimental to industrial expansion, to the welfare of the country and to the masses the Congress Party is avowedly attempting to help.

Fortunately in agriculture the picture was brighter for, helped by government policy and a succession of good monsoons, the progress of the previous year was sustained. Further advances too may be expected from the high yield seed programme, the increasing use of fertilisers and insecticides and the growing acreage under irrigation and food production may reach 100 million tons for the first time, which would represent a six percent increase over 1968/69. The rapidly increasing food crops and the consequent reduction in imports significantly narrowed the trade gap and for the year ending in June 1969 the country's reserves increased by U.S. $118 million. If tea prices have turned the corner and more settled conditions prevail on the estates, profits in agriculture generally could be promising.

There were signs in the year that the results of devaluation, coupled with a will and drive to export by established industrialists aided by cheap export finance, was at last having a beneficial effect on the balance of payments and for a time the country seemed to be on the road to economic recovery, but the present altered policies will undoubtedly cause a setback.

Our Local Advisory Board continued to meet regularly over the year and we also had the benefit of a personal meeting in London with some of its members, whom we were happy to welcome into our midst.

Conclusion

As each year passes and the new or developing countries as we are still apt to call them, become that much older, it is more apparent that those with liberal governments encouraging private enterprise are forging more and more ahead. Even a benevolent dictatorship not anti-business and against profits is likely to have a more successful economy and a more satisfied people than any so-called democracy where extreme socialistic measures, bureaucratic interference and high taxes stultify enterprise and initiative. Lack of success in the more doctrinaire countries, instead of producing policies to restore the balance and give impetus to trade, often merely sees an increase in a form of resentful nationalism. Internal politics cannot unfortunately be left completely out of business, even in the industrialised Western nations, and world politics also play their part in deciding the pattern of trade and aid, but with strains developing in their own economies, the older industrial countries will need to be more critical and more satisfied that assistance is turned to the best advantage. Those Asian countries with mature statesmen, liberal at home and in their international outlook and understanding, deserve full support and one hopes that their countries will gain added stability from increased world trade and investment. At the same time, it is hoped that there is continued realisation that the overseas banks, such as The Chartered Bank Group, play an important role in the stability of the countries in which they operate.

RECORDS AND STATISTICS

Industrial Licensing Clarifications

In *Eastern Economist* of February 27, 1970 (page 326) we had published the new industrial licensing policy of the Government of India. The government has now issued a note which explains some of the features of the industrial licensing policy for the guidance of entrepreneurs. Full text of this note is given below:—

Consequent on the significant changes in Industrial Licensing Policy, announced through the press note dated February 18, 1970 and in respect of which notification No. S.O. 173/IDRA/29B/70/1 and No. S.O.174/IDRA/29B/70/2 dated February 19, 1970 and notification No. S.O. 912/IDRA/29B/70/3, dated February 29, 1970 have been published, the following elucidations are issued for the guidance of entrepreneurs and industrial undertakings:—

(*a*) The reference to companies and undertakings belonging to or controlled by any of the Larger Industrial Houses referred to in the above notifications would apply to all first-tier companies included by the Industrial Licensing Policy Inquiry Committee in the list at Appendix II-A(1) of its Report with such amendments to this list as may be made by government from time to time. Companies or undertakings which may wish to represent against their inclusion in that list should submit such representations to the Secretary to the Government of India, Department of Company Affairs. The Department of Company Affairs will be responsible for making such changes and modifications in the list as may be necessary from time to time.

(*b*) "A foreign company or a branch or a subsidiary of a foreign company" referred to in the Press Note and in the notifications include all companies as have more than 50% of their paid-up equity capital held by companies registered abroad or by non-Indian nationals or non-resident Indians.

(*c*) The term 'dominant undertakings' referred to in the Press Note and in the Notifications will have the same means as in section 2(d) of the Monopolies and Restrictive Trade Practices Act, 1969, (54 of 1969). This definition is reproduced in Annexure I. Dominant undertakings will have to apply for a licence for any product covered by the Industries (Development & Regulation) Act, 1951 irrespective of the product in regard to which it is "dominant".

(*d*) For determining whether or not an undertaking's fixed assets fall within the exemption limit, the value of fixed assets in terms of land, buildings, plant and machinery shall be the original cost of their acquisition. If the land or buildings referred to above are taken on rent or otherwise held on non-ownership terms, the capitalised value of such premises shall be taken into account.

(*e*) As regards qualifying for exemption in respect of foreign exchange requirements for raw materials, components and the like specified in the press note and in the notifications, an undertaking would qualify if,—

(*i*) the undertaking does not require import of components beyond 3 years from the date of commencement of production. The quantum of component imports, if any, during the first three years will be regulated in accordance with the phased manufacturing programme as approved by the DGTD or other technical authority as the case may be.

(*ii*) The value of imported raw materials does not, in any one year, exceed 3% of the ex-factory value of production of item in the manufacture of which the raw materials are to be used or Rs 3 lakhs, whichever is less. For the purpose of this percentage or the ceiling of Rs 3 lakhs, the requirements of steel and aluminium to be imported will be excluded, as it is expected, the shortage of supply of these materials of indigenous origin will be of short-term duration.

It needs to be emphasised that the fact that undertakings will be exempted or licensed, among others, with reference to their foreing exchange requirements does not imply any commitment on the part of government to provide foreign exchange either for capital goods or for raw materials or components in any case. The allocations of foreign exchange will be subject, above all, to availability from time to time, and the existing norms and procedures relating to import and foreign exchange control will continue. Imports of capital goods, components and raw materials will not be permitted in case these are available within the country.

In the past, 'banned' lists were drawn up from time to time for the purpose of indicating the industries in respect of which licence applications would ordinarily be rejected without reference to the Licensing Committee. These lists normally comprised (*a*) items reserved for development in the small-scale sector and (*b*) items for which adequate capacity had already been licensed. The reservation for the small scale sector is now covered by this Department's notifications No. S.O. 173/IDRA/29B/70/1 dated February 19, 1970 and No. S.O. 912/IDRA/29B/70/3, dated February 28, 1970 and the list of industries reserved for the small-scale sector is proposed to be further expanded. Consequently, a separate banned list for reserving certain industries and items for the small-scale sector is no longer necessary. It has been decided to dispense with such lists from the point of view of capacity for six months from the date of this press note, as an experimental measure. Consequently, no 'banned' list will be operative or newly published. Government will, however, watch the situation as it develops and will, through appropriate action, discourage the undue flow of resources into the establishment of manufacturing capacity for non-essential or luxury goods or into industries which would exert undue pressure on supplies of relatively scarce raw materials, components etc., whether indigenous or imported. Subject to these conditions, the setting up of industries which were previously included in the "banned list" will be possible with or without a licence as the case may require.

It has already been announced that government wish to expand the role of the public sector. The government's basic policy in this regard will be governed by the Industrial Policy Resolution, 1956 as amended from time to time. Items in Schedule A of the Industrial Policy Resolution will continue to be reserved for the public sector. It will not be open for any entrepreneur in the private sector to set up manufacture of any of these items without a licence in consequence of the provisions for exemption.

In the list of "core" industries announced in the press note and in the notifications, the items of heavy industrial machinery and selected electronics components were yet to be specified. The items of heavy industrial machinery included in the core sector will be: (1) paper machinery, (2) chemical machinery, and (3) specialised machine tools. Rubber machinery and printing machinery are not at present covered by the Industries (Development & Regulation), Act, 1951, but they will also be treated as being in the core sector for other purposes. Selected electronic components which will be deemed to be in the core sector will be :

(*i*) Resistances, fixed and variable.

(*ii*) Condensers or capacitors, fixed and variable.

(*iii*) Semi-conductors, including diodes, thick film, thin film, and integrated circuits.

(*iv*) Transmitting and receiving tubes including cathode-ray tubes.

(*v*) Connectors, switches, and relays.

(*vi*) Sophisticated microwave components and antennas.

(*vii*) Ferrites and magnets.

(*viii*) Thirmisters and varisters.

In the "heavy investment" sector, applicants will be required to furnish full details of the scale of operation, the types of machinery etc. required and justify clearly the need for the high level of investment.

In regard to undertakings which would not require any industrial licence under the new policy, a simple procedure of registration will be followed. It will be obligatory for all industrial undertakings exempted from licensing to submit periodical returns in two forms which will be prescribed separately. The first form shall contain full particulars of expected annual value of turn-over, phased manufacturing programme and requirements of imported raw materials and components and will have to be furnished at the time when an industrial undertaking places orders for machinery etc., and otherwise takes preliminary steps for setting up an industrial unit. Applications for capital goods import in such cases should be submitted at this stage to the CCIE through the DGTD or other sponsoring authorities as hitherto. The second form will have to be furnished to government immediately after the commencement of production of the unit concerned. This revised system of registration is intended primarily for statistical purposes and will in the normal course, secure incorporation in the registers of the DGTD. Such registration would not, however, imply any commitment on the part of government for release of foreign exchange either for import of capital goods or for raw materials and components.

In the light of the above clarifications, the industrial undertakings who have licence applications pending with government should review these applications and any applications which are covered by the new exemption limit, may be withdrawn by writing to government.

The following categories of undertakings which may have commenced production or may have taken effective steps to take up production under the provisions for exemption from licensing applicable to them hitherto,

must apply for a licence within a period of three months: (*a*) undertakings which have assets below Rs 25 lakhs and had not obtained a licence earlier but would now require a licence in the light of the new conditions for exemption from industrial licensing (e.g. foreign exchange requirements) and (*b*) undertakings manufacturing items which were, prior to February 19, 1970 exempted from licensing but which require a licence under the new policy.

In respect of all such cases as are covered by (*a*) and (*b*) above, applicants should apply in form "EE" appended to the Registration and Licensing of Industrial Undertakings Rules, 1952 for obtaining a licence for carrying on business. With regard to the application form and other procedures, undertakings which have taken effective steps will be treated on the same footing as undertakings which have already commenced production. In order to ensure expeditious disposal of such applications, the value of fixed assets, the industrial capacity set up including the number of shifts, actual production, if any, in the past, and the foreign exchange implications, if any, should be clearly spelt out. A proforma containing items in respect of which further details will ordinarily be required is at Annexure II. It is possible that some industrial undertakings may be in possession of industrial licences which subsequently became dormant because of the notification of exemptions which were applicable to them. In respect of such of these industrial undertakings as are now required to take out a licence, the dormant licence in their possession should be submitted to government for revalidation. If these licences have, however, been revoked or if the production exceeds the capacity for which these undertakings were licensed, the concerned undertakings will have to apply afresh in Form EE for "carrying on business".

In the light of the above clarifications, government expect that the new licensing policy will ensure greater freedom and opportunity for entrepreneurs, particularly small, medium groups and the new or industrialsts and would bring about an accelerated rate of industrial growth. They also expect a more effective and wider participation of the small scale sector and the public sector in accelerated industrial development.

Annexure I

Extracts of Section 2(d) of the Monopolies and Restrictive Trade Practices Act, 1969.

2. (d) "dominant undertaking" means an undertaking which either by itself or along with inter-connected undertakings,—

(*i*) produces, supplies, distributes or otherwise controls not less than one-third of the total goods of any description that are produced, supplied or distributed in India or any substantial part thereof, or

(*ii*) provides or otherwise controls not less than one-third of any services that are rendered in India or any substantial part thereof.

Provided that for the purposes of this clause, the goods produced by an undertaking which does not employ—

(*a*) more than fifty workers on any day of the relevant year, and in any part of which a manufacturing process is being carried on with the aid of power or is ordinarily so carried on, or

(*b*) more than one hundred workers on any day of the relevant year, and in any part of which a manufacturing process is being carried on without the aid of power or is ordinarily so carried on,

shall not be taken into account.

Explanation I.—Where not less than one-third of the production, supply, distribution or control of any goods or the provision or control of any service is shared by inter-connected undertakings, each such undertaking shall be deemed, for the purposes of this Act, to be a dominant undertaking.

Explanation II.—Where any goods of any description are the subject of different forms of production, supply, distribution or control, every reference in this Act to such goods shall be construed as reference to any of those forms of production, supply, distribution or control, whether taken separately or together or in such groups as may be prescribed.

Explanation III.—Any undertaking which, either by itself or along with inter-connected undertakings, produces, supplies, distributes or controls one-third of any goods or provides or controls one-third of any services according to any of the following criteria, namely, value, cost, price, quantity or capacity, of the goods or services or the number of workers employed for the production, supply, distribution or control of such goods or for the rendering of such services, shall be deemed to be a dominant undertaking.

Explanation IV.—In determining the question as to whether an undertaking is or is not a dominant undertaking, regard shall be had to—

(*i*) the lowest production made, or services rendered, by the undertaking concerned during the relevant year, and

(*ii*) the figures published by the central government with regard to the total production made or services rendered in India or any substantial part thereof during the relevant year.

Explanation V.—For the purposes of Explanation IV, production includes supply, distribution or control of goods;

Explanation VI.—For the purposes of this clause, "relvant year" means any one year out of the three calendar years immediately preceding the preceding calendar year in which the question whether an undertaking is or is not a dominant undertaking is determined.

Annexure II

(1) Value of fixed assets (based on original cost of acquisition) i.e. investment in land, buildings, plant and machinery;

I. (*i*) Land

(*ii*) Buildings

(*iii*) Plant & Machinery

(*a*) Imported

(*b*) Indigenous

TOTAL

NOTE : Where the land and/or building is rented the capitalised value of the same may be given.

II. Value of proposed additions under any of these headings.

(2) Annual requirements of all imported raw materials in value (c.i.f.) and the percentage thereof to the total anticipated annual sales at ex-factory prices for the products for which the raw materials will be used, from the date of the commencement of production.

NOTE : (*i*) Figures to be furnished for each product separately.

Item of manufacture (Product)

(1)	(2)	(3)
Value of imported raw materials required per annum	Estimated annual sales of product at ex-factory prices	Percentage of Col 1 / Col 2

(*ii*) For calculating the percentage, value of imported steel and Aluminium will be excluded.

(*iii*) If there will be variations because of the phasing of the manufacturing programme they should be indicated.

(3) (*i*) Value of anticipated requirements of imported components (c.i.f.) for the first 3 years from the date of commencement of production.

(*ii*) Details of the phased manufacturing programme.

(4) Main indigenous raw materials required annually in quantity and value:—

	Name of raw material	*Quantity*	*Value*
(*i*)			
(*ii*)			
(*iii*)			
(*iv*)			

(5) Whether Registered with DGTD or other technical authorities? Give number and date of registration.

(6) Whether any company or undertaking belonging to or controlled by any of the Larger Industrial House as classifid by Industrial Policy Inquiry Committee in the list at Appendix II-A(1) of its report with such amendments to this list as may be made by government from time to time, has any financial or other interest or connection with (the undertaking in question? Details regarding the specific nature of the interests or connection should be furnished.

(7) Whether there is any foreign equity shareholding in the undertaking and, if so, the extent of equity shareholding held by companies registered abroad or by non-Indian nationals or non-resident Indians?

(8) Whether the undertaking has any foreign collaboration arrangement and, if so, the broad terms thereof, including the date when the present agreement will expire? The reference number of government's letter of approval in respect of the foreign collaboration agreement should be quoted.

(9) Whether the undertaking is a 'dominant undertaking' in terms of Section 2(d) of the Monopolies & Restrictive Trade Practices Act? Items of production in respect of which the undertaking falls in the above category should be indicated.

8 flights by day
7 flights by night

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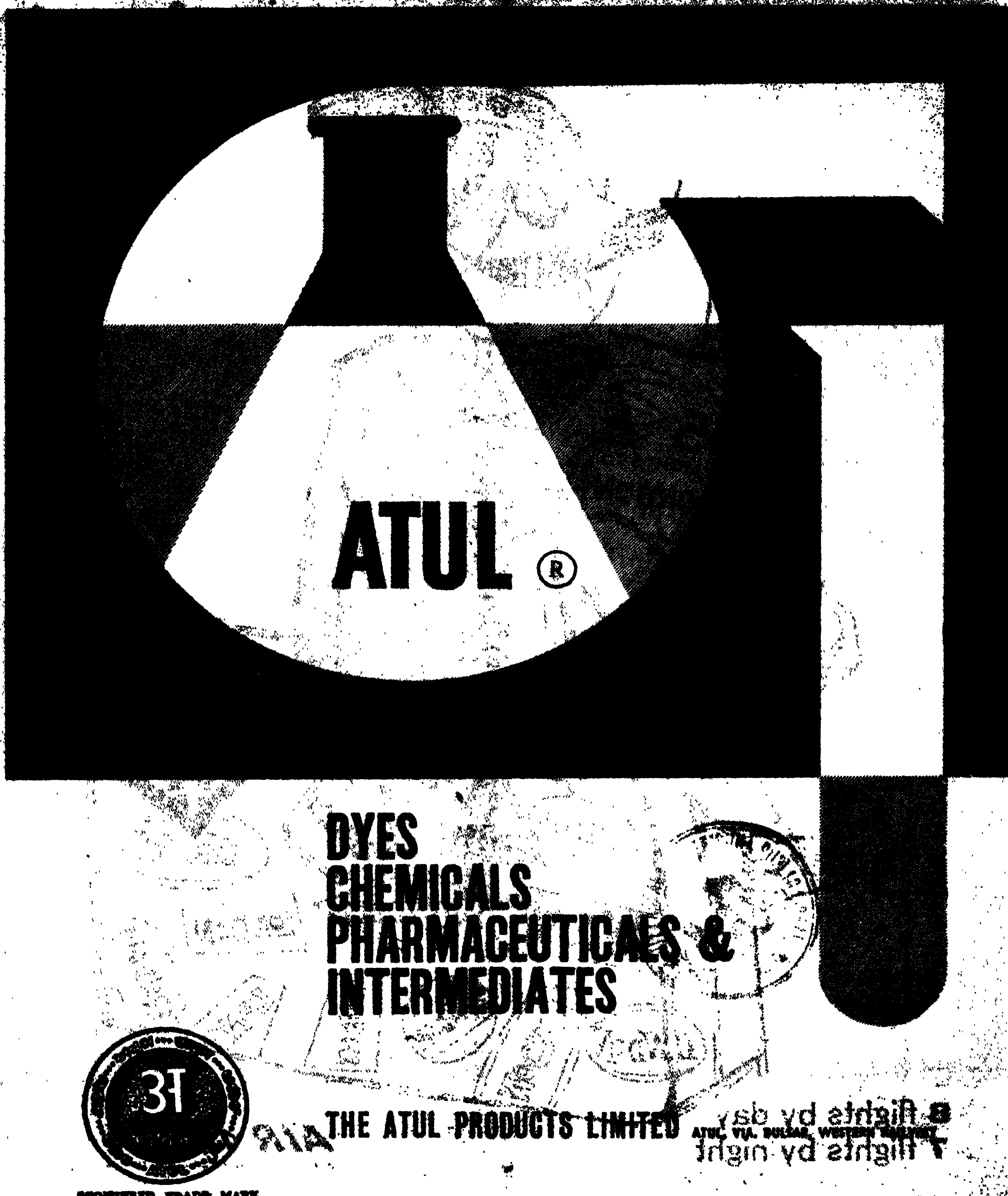

Printed and Published by R. P. Agarwala, on behalf of the Eastern Economist Ltd., United Commercial [illegible]
Parliament Street, New Delhi, at the [illegible] Press, Connaught Circus, New Delhi.
Editor : V. [illegible] Registered at the G.P.O., [illegible]

EASTERN 13 ECONOMIST

[RU]PEES 1.50 MARCH 27, 1970 VOL. 54

NEW DELHI, Tuesday—Members in the Lok Sabha today demanded the dismissal of Mr S. S. Dhavan as Governor of West Bengal. He was dubbed a political partisan and his actions were described as improper......

Mr Dhavan, according to Mr Nath Pai, was committed to a political philosophy and it was only fair that he was given the necessary freedom to promote his view on "this vast open arena of our country". The shackles of gubernatorial office ought not to be imposed on such a man, Mr Nath Pai said while demanding the Governor's dismissal.

THE STATESMAN, March 25, 1970

EASTERN ECONOMIST

MARCH 27, 1970

ANNUAL SUBSCRIPTION
INLAND : Rs 85.00
FOREIGN : £7-0-0 or $17-00
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LAST BUS TO DEMOCRACY

WEST BENGAL has been rescued at the eleventh hour. Let us, then, rejoice and while rejoicing, let us also be clear about this that no credit is due to the central government for this denouement. The saviour of West Bengal, on this occasion, was undoubtedly Mr Ajoy Mukherjee, for it was he who forced the issue in such a manner that he left the Prime Minister with no means of evading the issue of law and order and the people's security in West Bengal. It is true that Mr Mukherjee twice committed the folly of going for a ride on the communist tiger, but he has now demonstrated that he could not only get off its back but also lead the beast into a pit of its own digging.

We have only to recall the scorn and ridicule which was poured on him when he went on his famous fast for educating public opinion in West Bengal about the true nature of the communist conspiracy in order to be able to appreciate the tremendous sacrifice he made and the colossal strain he bore in fighting the CP-M from within the United Front Ministry. Unthinking men or those without critical faculty were only too readily disposed to twit him with the admonition that he had no business to stay on in the state government if he could not function effectively as chief minister. They did not realise that had Mr Mukherjee resigned then and there, he would virtually have handed over the political destinies of West Bengal to a CP-M dominated mini-front. Had Mr Mukherjee resigned in December, 1969 and his party quitted the coalition ministry, the CP-M would have been left in a position to coerce or cajole a miscellany of leftist or other political groupings to become its silent and subservient minor partner in a new ministerial alliance. Around the third week of March when Mr Mukherjee did resign, this possibility was no longer open to Mr Jyoti Basu and his comrades. This transformation of the political equation in West Bengal is a measure of the wisdom and courage Mr Ajoy Mukherjee displayed by taking his case to the people. It is, therefore, with some pride and a great deal of pleasure that we remind ourselves that, in the issue of this journal dated December 12, 1969 we had the guts as well as the gumption to take a view of Mr Mukherjee's strategy and tactics which was rather different from the opinions which were widely fashionable at that time.

Now that the Prime Minister and the Government of India have been forced against their will to impose President's rule on West Bengal and assume responsibility for the day-to-day administration of that state, we suggest that Parliament and public opinion should see to it that Mrs Indira Gandhi and her colleagues in the cabinet realise what their obligations are and fulfil them completely and competently. Although the West Bengal Assembly has been only prorogued, it is of the utmost importance that the central government should face the fact that it will not be possible to restore popular government in West Bengal for some time to come without the country once more inviting the risk of the communists again using the machinery of the state government for purposes of subversion. In other words, strictly in terms of the minimum requirements of law and order and the security of the country, West Bengal will have to remain under President's rule for the foreseeable future. While it is not necessary for the central government to commit itself, in so many words, to President's Rule in West Bengal for an indefinite period, it may and, in fact, it ought to proceed on the basis that it will have to be directly responsible for the administration of West Bengal for the next few years. Viewed in this light, the present phase of President's Rule in West Bengal can be regarded neither as first aid nor as a rescue exercise in an emergency. So far as the central government is concerned, it must accept and discharge the responsibilities of regular administration with a clear mind and a broad vision.

The highest priority, of course, should be given to the firm restoration of law and order so that ordinary men and women may be reassured and convinced that the rule of law is to prevail once again in West Bengal. The next immediate requirement is that the state of anarchy which has come to prevail in industrial relations should be ended and responsible trade unionism insisted upon and encouraged. We have enough faith in the patriotism and vitality of the business community of West Bengal to believe that once the reign of terror set up by anti-social elements is over, commerce and industry will promptly return to normal functioning in the service of the economy of the state and the country.

These tasks, vital as they are, would still be preliminaries to what need to be done to cure West Bengal of its political ailments and economic distempers.

It is not suggested here that a miracle could be wrought overnight. But we do assert that, provided the central government has a sufficient sense of responsibility it ought to be possible for it to set in train at once a programme of action which can persuade the people of West Bengal to hope, that within a reasonable period, there will be more employment in town and country, less hardship for middle-class families and a diminution of mass poverty. In our view, a series of well co-ordinated plans and projects should be prepared immediately for the centre or the state administration undertaking considerable public expenditure on the economic infrastructure or the social overheads. Housing, roads, urban development, minor irrigation works, electricity and the modernisation and expansion of Calcutta port are obviously some of the means of releasing public funds into economically rewarding and socially stabilising channels of constructive activity.

In terms of a larger perspective and over a longer period, it would certainly be desirable to have a regional plan of agricultural and industrial development for the states of eastern India so that the manpower surpluses of the neighbouring states do not become a liability to be carried on the books of Calcutta's strained economy. It should, undoubtedly, be possible for most of these specific projects to be accommodated within the framework of the fourth Plan at the central, regional or the state level. But where readjustments of the perspectives or programmes of the Plan are called for, they should be made without hesitation or delay.

There is a feeling in some quarters that, after the intimidation and harassment to which business houses and industrial managements in West Bengal have been subjected to in recent months, it may be necessary for special guarantees or assurances to be given to industrialists or other members of the business community if there is to be a revival or expansion of economic activity in the state. We believe, however, that the only assurance that enlightened business leaders in West Bengal may ask for or should receive is that the central government is fully alive to its obligation for maintaining law and order and defending the political stability and security against onslaughts, covert or overt, by communist or fellow-travelling political parties or groupings.

Beyond this all that may be needed are early signs of an effective programme of economic and social development on the lines mentioned earlier to which the administration in the state and the central government must pledge their clear and firm commitment. Provided these conditions are fulfilled, the business community in West Bengal may be expected to show the initiative, enterprise and earnestness needed for promoting a pattern of co-operative and constructive relations between itself and responsible trade union organisations in West Bengal. What must be avoided at all costs is any kind of uncertainty about the immediate future of the political set-up or administration in the state. Should the central government, unfortunately, were to be imprudent enough to give rise to a feeling that it regards the present spell of President's Rule merely as a rescue or even only as a holding operation, it would be falsely optimistic on anybody's part to expect the economy of West Bengal to return to normal functioning.

Finally, a word about the governor who, under President's Rule, has to function as the effective chief administrator of the state. It is unfortunate but true that during the time Mr S.S. Dhavan has been Governor of West Bengal, he has not been conducting himself in a manner which could win the trust of those who have a stake in countering communist subversion in the state. His eligibility for the post he is now occupying was very much in dispute even when he was appointed to it. Doubts of the Government of India's wisdom, if not motives, in choosing him have only grown since. His attitudes, if not activities, during the political crisis which immediately preceded President's Rule have been challenged by men whose views on public affairs are entitled to our respect.

Speaking a few days ago at the recent meeting of the National Development Council, Mr Dhavan made some observations in the lighter vein: "I was appointed to be a high court judge without any prior judicial experience. Then Madam Prime Minister made me High Commissioner although I had no experience as a diplomat. I am now governor without any administrative experience". How good a high court judge he made we confess we do not know. About his record as High Commissioner in London, we have some knowledge and there was at least one fairly well-advertised public occasion when his behaviour reportedly was not such as to go to his credit as an individual or add lustre to the prestige of "Madam Prime Minister", who had thought him to be a fit person to represent the Government of India at the Court of St. James. To add to all this, even during the short period he has been Governor of West Bengal, there have been episodes which have not been such as to inspire public confidence in his awareness of the obligations of high office. For instance, there is a report that, at one of the race meetings in Calcutta, he went out of his way to be rude to a foreign business executive (whose horse had just won a race) and thereby invited the latter's reciprocal discourtesy.

Such aberrations of personal conduct apart, Mr Dhavan does not appear to be the person most qualified to preside over the new dispensation in West Bengal. He himself has confessed that he is without administrative experience even for reigning as a governor with an elected ministry in existence. It is clearly not fair to him to expect that he should continue as governor under President's Rule when he has to rule as the effective chief administrator of the state. Finally, his political bias may well persuade him to function simply as a caretaker for a returning Marxist-led ministry. It follows that, if the Government of India is really committed to bringing about a political and economic reorientation in West Bengal, it should start by finding itself a new governor in that state. A leader with the political integrity and economic vision of, say, Mr B.K. Nehru may be able to help West Bengal to turnover a new leaf in its history. An adequate governor, assisted by advisers of his choice, is what President's Rule in West Bengal needs today. This is the last chance for West Bengal and, indeed, all India. This is also the last bus to a democratic future for the nation. Let us not miss this bus.

The Budget and the Plan

WHILE THE fourth five-year Plan document as approved by the union cabinet and the National Development Council recently is yet to be ratified by Parliament, the central budget for 1970-71 has defined the contours of the public sector of the Plan for the second year of the plan period. A detailed document entitled "Plan-Budget Link", which was distributed along with the budget papers, gives estimates of likely expenditure on planned projects in 1970-71. It shows that the buoyancy in our economy has emboldened the Prime Minister (who is also the Finance Minister) to raise the Plan outlay by as much as Rs 398 crores.

Since 1965-66, the highest outlay at current prices has been at Rs 2,337 crores in 1968-69 and the lowest at Rs 2,137 crores in 1966-67. The proposed outlay for 1970-71 at Rs 2,637 crores makes a departure from the hesitancy of the past five years, though the enhanced outlay at 1965-66 prices is significantly short of the level in 1965-66. As against the outlay of

Rs 2,291 crores in 1965-66, the estimated outlay for 1970-71 at 1965-66 prices would be around Rs1,900 crores. Thus, despite the increase in outlay at current prices, the size of the Plan in physical terms still falls significantly short of the level reached in 1965-66.

According to current indications, the size of the public sector outlay in the fourth five-year Plan period is expected to be Rs 15,900 crores. The corresponding outlay for the first two years works out to be Rs 4,876 crores — 30.67 per cent of the total. It follows that the outlay will have to be increased roughly by Rs 500 crores each year in the remaining three years if the target set for it is to be attained.

Out of the outlay of Rs 2,637 crores, the centre has taken upon itself the responsibility of raising Rs 2,122 crores; the balance represents the effort of the states. Will the states be able to raise Rs 515 crores in 1970-71? In the light of the state budgets which have been presented so far, it seems to be a a difficult task. It needs to be pointed out that the central assistance for state plans in 1970-71, will be Rs 635 crores, which is sizeably higher than the resources which the states are expected to raise (see Table 1).

A careful study of the sector-wise allocation of the plan outlay by the centre for 1969-70 and 1970-71 (see Table II)shows that each developmental head has been given increased funds though there are certain sections which have received more attention than others. At the top of the list is "Industry and Minerals" with outlay at Rs 548 crores in 1970-71, recording a notional rise of two crores of rupees over the preceding year. The allocations have been increased in the case of Machine Tools Corporation, Nepa Mills, Hindustan Machine Tools, Hindustan Zinc, Fertilizer Corporation of India, Oil and Natural Gas Commission and Heavy Engineering Corporation. The largest allocation among the industrial units—Rs 89.50 crores—has been made for the Bokaro steel plant.

The failure to increase outlay for industry and minerals is due to the concern of the government for the other sectors of the economy where, it is feared, bottlenecks will create increased complications if necessary action is not taken immediately. That is why the provision for transport and communications has been raised sharply from Rs 371 crores in 1969-70 to Rs 455 crores in 1970-71. Besides railways and roads where financial allocations needed to be raised because of increased traffic offerings, the outlay for ports and harbours, shipping and air transport has been sizably enhanced. For increased foreign trade, facilities at ports and harbours cannot brook any delay. We may neglect shipping at the risk of hampering the expansion of our exports. The other major allocations in this section relate to Posts and Telegraphs and the Farakka Barrage.

Again, the increased allocation for power is expected to facilitate the early completion of the Badarpur Thermal Power Station and the nuclear power stations in Rajasthan (Rana Pratap Sagar) and Tamil Nadu (Kalpakkam). The improved allocation for agriculture and allied programmes also is due to the added emphasis currently being laid on the primary sector. The agricultural prosperity witnessed for the past three years has succeeded in taking the economy out of the recession and there is undoubtedly need for keeping up the tempo of development in agriculture.

TABLE I

PLAN PROVISION IN BUDGET

(Rupees in crores)

	Budget 1969-70	Budget 1970-71
I. Central Sector		
(A) Central Plan—		
(i) Met from Central Government's Budget	959	1,076
(ii) Internal resources of public-sector undertakings	162	202
(iii) Other sources	3	14
Total—(A) Central Plan	1,124	1,292
(B) Centrally Sponsored Plan	99	119
Total—I—Central Sector	1,223	1,411
II. Union Territories		
(*a*) Territories without Legislature (including NEFA)	32	38
(*b*) Territories with Legislature	34	38
Total—II—Union Territories	66	76
III. States		
(*a*) Central assistance for State Plans	615	635
Total—Plan Provisions	1,904	2,122

The allocation for social services has been raised from Rs 155 crores in 1969-70 to Rs 183 crores in 1970-71 in an effort to provide new initiatives "for the well-being of the needy and the poor". A reference to social justice was made by the Prime Minister in her budget speech this year and the schemes under this head were explained in detail in a special brochure entitled "Towards Growth with Social Justice", which was published in full in our Budget Number of March 13. Broadly, the schemes under social justice are designed to assist small farmers and agricultural labour and cover such projects as nutrition programmes for pre-school and school children, housing and urban development, rural drinking water supply and social security for industrial workers and government employees. This is all to the good of the common man, the only fear being that whenever the estimates in regard to available resources go wrong—for whatever reasons—the axe invariably falls on the social benefit schemes. It is to be hoped that the practice of the preceding plans would not be repeated in 1970-71.

The rate of growth of our economy for the 19 years ending in 1969-70 has been 3.6 per cent per annum. In 1969-70, according to the estimates of the Ministry of Finance, national income rose between five and 5½ per cent. The fourth five-year Plan envisages a rate of rise between five and six per cent a year and it seems that the economy is now poised for this rate of growth in 1970-71 and in the remaining three years of the Plan period. The rate

TABLE II

PLAN PROGRAMME FOR THE CENTRAL SECTOR

	Budget 1969-70 (Outlay in Rs crores)	Budget 1970-71
1. Agriculture and allied Programmes	86	125
2. Irrigation and flood control	2	5
3. Power	48	79
4. Industry and Minerals	546	548
5. Transport & Communications	371	455
6. Social Services	155	183
7. Other programmes	15	16
TOTAL	1,223	1,411

of rise in population over the past decade has been estimated at about 2.3 per cent per annum with the result that per capita rise in income has not been more than 1.4 per cent per annum. If the economy continues to race ahead at five to six per cent per annum and the increase in population is checked at (or below) 2.5 per cent per year, we will witness an annual rate of rise in income of more than 2.5 per cent on per head basis.

All in all, the budget for the current year has given the much-needed lift to the fourth five-year Plan which in the wake of the plan holiday had made a very hesitant start last year. The coming years will see gradual stepping up of outlay which will assist in accelerating the pace of growth of the economy.

ICICI Has Done Well

BY ITS very nature, a development bank has more problems to face than ordinary commercial banks, (even when these are nationalised), and a development bank in a developing country particularly has even more if it really wants to play the role expected of it. It is a matter for gratification, therefore, that the Industrial Credit and Investment Corporation of India Ltd, (ICICI) has not only shown its awareness of these problems but has been facing up to them admirably, thanks to the able and imaginative handling thereof by its chairman, Mr G. L. Mehta, as witness his latest annual statement to the members of the Corporation. After briefly reviewing the achievements of India during the sixties, Mr Mehta has indicated the tasks confronting the country in the seventies. "Worthwhile as this progress (progress in the sixties) is", Mr Mehta has noted, "it is not something that is adequate. We have hardly touched the fringe of our economic problem so far and have to go a considerable way to meet even the minimum needs of the bulk of our population. Not only the scale of the effort required has to be much larger; the quality of the endeavour has to be different. We cannot merely seek to duplicate our existing production pattern; as incomes and output grow, the kind of goods that will be required in the country will necessarily change.

The ICICI chairman has also pointed to the nature of the gaps in agriculture and industry alike, also both quantitatively and qualitatively in regard to either. It is significant that, according to him, the gap in industry is far wider as between India and other countries than in agriculture in purely quantitative terms, and more so in qualitative terms. This requires to be stated clearly, especially at a time when all the emphasis in economic policy in our country has shifted away from industry, in particular the large-sized ones. And, considering that "the new-generation industries", as Mr Mehta has described the sophisticated industries that need to be set up in the seventies, are all highly capital-intensive, it is some consolation that the Government of India's new licensing policy does not debar the bigger industries (the big 20 houses), from entering such heavy investment sectors, not to speak of the core sector. But how far the ICICI, geared though to the task, as it is, will be able to continue to help these houses is not very clear. Does the Corporation's proposal to diversify its activities by extending financial assistance to proprietory and partnership concerns and hire-purchase finance companies mean that it may have to leave the big industrial houses to fend for themselves?

Meanwhile, the various steps taken by the ICICI to make its services available may be noted. In order to broad-base its help to industry, it has extended its operations by providing foreign currency loans to proprietory and partnership concerns. For this purpose, the Corporation has asked the state finance corporations to process and forward to it even small proposals received by them involving foreign exchange outlay. The Government of India also, it is said, may direct some proposals received by it to the Corporation for such help. Secondly, the ICICI has opened two offices outside Bombay, one at Calcutta and the other at Madras and as part of their activities, these offices have already commenced selling the Corporation's investment portfolio. Thirdly, the Corporation has begun to participate in the share capital of a private sector hire-purchase finance company (Jai Bharat Hire-Purchase Finance Company). And, above all, recognising the importance of the need for sophisticated financial techniques in the management of new-generation industries especially, the Corporation has sponsored the setting up of an institute of financial management in Tamil Nadu and has agreed to support it financially. The Tamil Nadu government and some big industries also have promised support to this institute, it is stated. Not much headway has been made yet, but Mr H. T. Parekh, Deputy Chairman and Managing Director of the Corporation, is due to visit Tamil Nadu shortly to set the ball in motion in this behalf.

Another important step taken by the ICICI to meet its increasing obligations as the level of investment in the coming years rises— and the tempo has picked up distinctly over the last six months, what with the increasing reliance on indigenous machinery—is to increase the resources available to it. Even as early as last December, it will be recalled, the Corporation augmented its rupee resources by a second public issue of debentures of Rs 5 crores, which, by the way, was oversubscribed, notwithstanding the somewhat lower return than that offered by debentures of joint-stock companies. The ICICI also received its first sterling loan of £1 million (Rs 180 lakhs) from the British Government, and negotiations for a second sterling loan of another million pounds from the same source are under way. So far, the ICICI has had eight lines of credit aggregating DM 77.50 million (Rs 16 crores) from West Germany and seven lines of credit aggregating $ 159.92 million from the World Bank, while arrangements are being made to have another line of credit each from both of these, of DM 5 million (Rs 102 lakhs) from KFW (West Germany) and $40 million from the World Bank. The resulting total resources (net of repayment and cancellations) available to the Corporation are put at about Rs 162 crores — Rs 70 crores in rupees and the equivalent of $ 133 million in foreign currencies — which is at once an indication of the Corporation's preparedness and a proof of its confidence in the seventies. There is every indication, according to Mr Mehta, that the industrial profitability in this country during

the coming years will show an upward trend. He feels that the trend towards fuller capacity utilisation and the firming up of the overall price index are likely to result in increased profitability, in revival in new industrial activity and, hence, in demand for investment funds.

When Mr Mehta met the Press the other day whilst releasing the fifteenth annual report and accounts (for the year ended December, 1969), he answered questions about the relatively inadequate share of assistance to the backward regions in the country, a subject on which there would appear to be more concern than comprehension. If there is some disparity in the assistance received by some underdeveloped states and those which are industrially developed, he said, it is because of the lack of entrepreneurship in the former. Making it clear that the ICICI has been participating in the industrialisation of the backward regions, he also highlighted the handicaps hindering the process. In the first place, he said, industrialisation presupposes the existence of a degree of infrastructure and so he wanted the underdeveloped states to identify the areas, while at the same time assuring them the Corporation's assistance to undertake feasibility studies and so on. Secondly he referred to the demand in some of these states that entrepreneurship for the projects to be set up should come from within the states themselves. It is ironical that chief ministers of some of these very states should be going round the country inviting outside entrepreneurs to start industries in their states. Here is a peculiar problem that puts a brake on fast development, as Mr Mehta indicated.

To turn now to the results of working of the Corporation in 1969. On the basis of the relatively better mood in industry in 1969 as a whole, the ICICI was able to show a modest improvement over the previous year. Thus, the Corporation's gross sanctions at Rs 39.20 crores in 1969 compared with Rs 38.25 crores in 1968; its net sanctions, however, declined slightly from Rs 31.03 crores to Rs 30.02 crores. The main form of this assistance as well as the industries that mainly benefited are of considerable interest. Assistance in 1969 was mainly in the form of foreign currency loans, much of it being needed for modernisation and balancing equipment as, for example, in the textile industry. Total disbursements in 1969 rose to Rs 18.16 crores from Rs 16.54 crores in the preceding year. Mr Mehta expects that both sanctions and disbursements in 1970 and thereafter would improve further. As regards the main lines in which the ICICI operations in 1969 showed an improvement, the report lists artificial fibres, rubber tyres and shipping.

Taking into account the entire operations of the Corporation up to the end of 1969, one finds that the total sanctions were as much as Rs 261.55 crores, and the break-up of this sum includes Rs 151.78 crores in the form of foreign currency loans, Rs 46.02 crores rupee loans, Rs 6.89 crores guarantees, Rs 50.33 crores underwriting and Rs 6.53 crores direct subscriptions. As against these, the total sanctions of Rs 173.17 crores consisted of Rs 100.05 crores foreign currency loans, Rs 38.89 crores rupee loans, Rs 27.75 crores underwriting and Rs 6.48 crores direct subscription. The last two are sizable indeed, but, as Mr Mehta rightly said, it is the specific responsibility of a development bank to go to the rescue of industrial concerns when conditions in the capital market are particularly difficult as has been the case in recent months, especially for new companies, and one should compliment instead of criticising the Corporation for the courage displayed by it. The results of development banks have to be judged rather by the degree of such courage and farsightedness than by the profits they make. But, even by the latter standard, be it noted, the ICICI has done commendably well.

The Nixon Doctrine

DR A. APPADORAI

THE NIXON Doctrine developed by President Nixon during the last nine months has a significant impact on Asian Affairs; it is proposed to review the essentials of this doctrine with special reference to its impact on international relations.

In an address at the Air Force Academy Commencement on June 4, 1969, President Nixon himself explained the essentials of his doctrine :

Building a lasting peace, the President said, requires a foreign policy guided by three basic principles, partnership, strength and willingness to negotiate. Developing these principles, he said :

Peace requires *partnership*. Its obligations, like its benefits, must be shared. This concept of partnership guides our relations with all friendly nations.

Safeguarding Interest

Peace requires *strength*. So long as there are those who would threaten our vital interest and those of our allies with military force, we must be strong. American weakness could tempt would-be aggressors to make dangerous miscalculations.

At the same time, our own strength is important only in relation to the strength of others. We — like others — must place high priority on enhancing our security through co-operative arms control.

Peace requires a *willingness to negotiate*. All nations— and we are no exception — have important national interests to protect. But the most fundamental interest of all nations lies in building the structure of peace. In partnership with our allies, secure in our own strength, we will seek those areas in which we can agree among ourselves and with others to accommodate conflicts and overcome rivalries. We are working towards the day when all nations will have a stake in peace, and will, therefore, be partners in its maintenance.

Within such a structure, international disputes can be settled and clashes contained. The insecurity of nations, out of which so much conflict arises, will be eased, and the habits of moderation and compromise will be nurtured. Most important, a durable peace will give full opportunity to the powerful forces driving towards economic change and social justice.

Of these three principles, I suggest, the second and the third are hardly new in American foreign policy in post-war years. The need for the United States to develop and maintain her military strength has been a constant in that policy. To illustrate: replying to Prime Minister Nehru's famous appeal of November 28, 1957 to the US (and USSR) to suspend nuclear tests, Eisenhower wrote to Nehru on December 15, 1957:

> I have been able to reach no other conclusion than that, for the time being, our security must continue to depend to a great degree on our making sure that *the quality and quantity of our military weapons are such as to dissuade any other nation from the temptation of aggression.*

So too on negotiation as a tool of diplomacy. On the eve of his tour to the Far East, President Eisenhower, for instance, emphasised that among most of the world's peoples, there was a genuine consensus of conviction that they could, by negotiation, solve even the most difficult of international problems. The Eisenhower-Khrushchev statement issued after their talks at Camp David accepts the same position. The President of the United States agreed with the Chairman of the Council of Ministers of the USSR, said the statement, that all outstanding international questions should be settled not by the application of force but by peaceful means through negotiation".

Negotiations for Peace

This belief in the potentiality of negotiation stemmed from two sources: First the discovery, and the making, of thermonuclear weapons had made war enormously destructive. "War in our time", said Eisenhower, "has become an anachronism. Whatever the case in the past, war in the future can serve no use fulpurpose. A war which became general, as any limited action might, could only result in the virtual destruction of mankind.

A second source is the realization that the interets of any nation had to be reconciled with the interests of other nations. Edmund Burke, whose political wisdom is rarely matched by any one else's, expressed this point in classic words: "Nothing is so fatal to a nation as an extremeof self-partiality, and the total want of consideration of what others will naturally hope or fear." The possible use of thermonuclear weapons in a war had brought home to American statesmen the need for taking note of this sage advice. They realized that, after they had determined the objective interests of their own nation, they had an obligation to look at the world in perspective and appraise coolly and realistically the interests of their neighbours and that there was no more hazardous a temptation than to treat other peoples as pawns in the struggle for one's own nation's basic interests.

Hand of Friendship

Now to the first principle which President Nixon enunciated; that, certainly is a change from the policy followed by his immediate predecessors. Let the principle, be described in Nixon's own words :

> Its central thesis is that the United States will participate in the defence and development of allies and friends, but that America cannot — and will not—conceive *all* the plans, design *all* the programmes, execute *all* the decisions and undertake *all* the defence of the free nations of the world. We will help where it makes a real difference and is considered in our interest.
>
> America cannot live in isolation if it expects to live in peace. We have no intention of withdrawing from the world. The only issue before us is how we can be most effective in meeting our responsibilities, protecting our interests, and thereby building peace.
>
> A more responsible participation by our foreign friends in their own defence and progress means a more effective common effort towards the goals we all seek. Peace in the world will continue to require us to maintain our commitments— and we will. As I said at the United Nations, "It is not my belief that the way to peace is by giving up our friends or letting down our allies." But a more balanced and realistic American role

in the world is essential if American commitments are to be sustained over the longpull. In my State of the Union Address, I affirmed that "to insist that other nations play a role is not a retreat from responsibility;it is a sharing of responsibility." This is not a way for America to withdraw from its indispensable role in the world. It is a way — the only way— we can carry out our responsibilities.

It is interesting that the genesis of this principle, according to Nixon himself, was learnt by him from a leader of an Asian country (whom he does not name). He said in his nation-wide television address on November 3:

Before any American troops were committed to Vietnam, a leader of another Asian country expressed this opinion to me when I was travelling in Asia as a private citizen. He said: "When you are trying to assist another nation defend its freedom, US policy should be to help them fight the war but not to fight the war for them."

In accordance with this wise counsel, I laid down in Guam three principles as guidelines for future American policy toward Asia:

First, the United States will keep all of its treaty commitments.

Second, we shall provide a shield if a nuclear power threatens the freedom of a nation allied with us or of a nation whose survival we consider vital to our security.

Third, in cases involving other types of aggression, we shall furnish military and economic assistance when requested in accordance with our treaty commitments. But we shall look to the nation directly threatened to assume the primary responsibility of providing the manpower for its defence.

Policy Change in Vietnam

The immediate impact of the Nixon doctrine was on America's Vietnam policy. "In the previous Administration", said Nixon* "we Americanized the war in Vietnam. In this Administration we are Vietnamizing the search for peace. The policy of the previous Administration not only resulted in our assuming the primary responsibility for fighting the war, but, even more significant, did not adequately stress the goal of strengthening the South Vietnamese so that they could defend themselves when we left." The concrete results of the Vietnamization plan were: First a substantial increase was made in the training and equipment of South Vietnamese forces, so that, in due time, the South Vietnamese forces would be able to assume the full responsibility for the security of South Vietnam. Second, US air operations were reduced to over twenty per cent. Third, a phased time-table was worked out for the withdrawal of American troops in Vietnam, starting with the first stage of withdrawing 60,000 troops by December 15, 1969; the time-table (not announced) was so worked out that "as South Vietnamese forces became stronger, the rate of American withdrawal can become greater." Moreover, it stands to reason that a rigid time-table could not be worked out in detail at the very beginning, for it was necessary to retain flexibility "to base each withdrawal decision on the situation as it is at that time rather than on estimates that are no longer valid."

Equal Participation

Critics have pointed out that the Nixon doctrine, in its application to Vietnam, errs on the side of optimism; they ask could the South Vietnamese troops ever acquire the strength which they would have if they fought along with American combatant troops? This criticism, I suggest, is misplaced, for its implication is that the Americans must continue to safeguard the security of South Vietnam eternally — proposition to which no one can agree.

Vietnam apart, it will be useful to stress the wider implications of the Nixon doctrine. I think that the value of the doctrine in international relations is the stimulus it gives to the self-reliance of nations for their own security. Too long has it been assumed by the adherents to mutual security pacts, the SEATO, the CENTO and the like that the stronger powers would safeguard the security of the weaker. The system of alliances has its strong points; but if it degenerates to the extent of destroying the self-reliance of the parties supported by the stronger, it is to be decried. In ringing words, Jawaharlal Nehru told the Bandung Conference* (1955): "I do not want any country in Asia to be lulled into a sense of, shall I say, dependence upon others, because that saps— that undermines the growth of that *elan* of a nation— that spirit of self-dependence, of having faith in themselves."

And let it be finally noted: the Nixon doctrine does not go so far as to scrap the system of alliances: it only asks the participants in the alliances "for a more responsible participation by our foreign friends" in their own defence: an idea with which the present writer, for one, concurs. The more any policy promotes self-reliance among a people for their own defence

*Text of an Address by President Nixon, November 3, 1969, (United States Information Service, New Delhi), p. 11.

*Asian African Conference, Meeting of Heads of Delegations April 20-24, 1955, p. 36.

"I insist rat you buy a ticket and pay the fine unless you are Mr. G.L. Nanda travelling incognito

and progress, the better for international relations. Besides, the complete withdrawal of U S troops from Vietnam, as per time-table, should mark the end of an epoch in Asian history and the beginning of a new: it should stimulate hard thinking for a much-needed regional security organization for South and South-east Asia. Regional security organizations are visualized under the United Nations Charter; it can be hoped that the States in the region will begin seriously to think over the creation of one, now that the British withdrawal from east of Suez and the American withdrawal from Vietnam can be visualized in the early seventies.

Into Europe : The New British Vision

JOSSLEYN HENNESSY

THE UK government's white paper on EEC membership is a puzzling document, which makes no serious attempt to assess analytically the benefits of membership.

The "costs" are assessed and added up to produce a total anywhere from £100 million to £1,150 million! This variance arises from the wide range of assumptions adopted regarding the cost of levies, import substitution, inroads into consumption made by higher food prices, and possible changes in EEC support prices.

Having done this, the white paper then postulates what it regards as a realistic contribution to the agricultural fund (FEOGA). It assumes a low of 15 per per cent of the 10-nation total or a high of 20 per cent. This gives, on an estimate of £1,600 million for expenditure in the agricultural fund by 1977, a low estimate for the UK contribution of £270 million (rather than £150 million) and a high of £350 million (rather than £670 million). Clearly the government regards the narrower range as the more realistic assumptions, and on this basis the "cost" to the balance of payments, taking trade effects into account as well as transactions with FEOGA, ranges from a low of £210 million to a high of £830 million.

EFFECT OF EUROPEAN AGRICULTURAL FUND (FEOGA)

(£ millions)

	Low	High
Cost of imports		
(+=redction in cost)	+85	—225
FEOGA contribution	—270	—350
Receipts from FEOGA	+100	+50
	--85	—555

A UK contribution as low as 15 per cent, or even 20 per cent, would have to be the result of negotiation. Although the preamble to the white paper declares that no allowance is made for the effect of negotiations on the terms of entry, this ceases to be so once an attempt to reduce the range of estimates begins.

Even a range of £200 to £800 million provides full scope for British opponents and advocates of membership to use the calculations to equal advantage. No doubt this is part of the document's political aim; in places it can be used to support entry, in others to buttress Harold Wilson's warning to the Six that without concessions the cost could be too high.

The figures for industrial trade mean little because the text does not say what effects are allowed for. Evidently all trade is allowed for, in so far as it is deemed affected by changes in price or profit margins through EEC membership. Loss of EFTA and Commonwealth preferences, and of competitiveness generally through the (evidently large) increases in wages and other costs foreseen as a consequence of dearer food (the retail price of food on average is forecast to rise by 18 per cent) will offset gains in trade with the existing Six, in so far as these can be inferred from price changes.

"IMPACT" EFFECTS OF TARIFF AND COST CHANGES ON NON-FOOD TRADE

(£ millions)

	Low	High
Exports	—75	—175
Imports	—50	—100
Balance of trade effects	-125	—275

However, non-quantifiable advantages, dynamic effects, competition effects, economies of scale, and a larger market come to the rescue. The white paper even says that "a faster growing market will provide British industry with opportunities, which it has not shared with the rest of western Europe since the war, for a *sustained* high level of investment in new plant and equipment." A visitor from outer space, having read this, would never dream that the UK economy's inability to sustain a high level of investment had had anything to do with stop-go policies! Likewise, the white paper says that the future of the high-technology industries depends on whether it is possible to create an enlarged EEC — a proposition that is not demonstrated, while at another point the white paper admits that co-operation has already begun without any extension of EEC institutions.

Restraint (or "realism") was detectable in Harold Wilson's policy statements of May 1967, the coolness of which surprised his more earnest pro-EEC supporters; the reason was the same then as now: the desire to preserve a negotiating position as an applicant not a supplicant.

Much more helpful than Harold Wilson's "on the one hand.. on the other" white paper is the new study by the Confederation of British Industries *Britain in Europe*: *A Second Industrial Appraisal*. Neither in the UK nor in Europe has it had the discussion that it merits.

When EEC entry was first debated, British attention concentrated on the trade effects of the customs union and the political implications. The CBI deals little with the political issues, and shows that the customs union is of smaller importance now. This is partly because of the Kennedy round: the common EEC external tariff at the end of the Kennedy round will average only 7·6 per cent, which for most British products with a high proportion of UK inputs will be a minor obstacle. In a world of product-differentiation, it is unlikely to make much difference whether the UK is inside or outside a tariff wall of that size.

Cost to the UK Payments Balance

But partly, too, it is because the EEC has moved on to other things. Progress on aims has been minimal, but the aims now cover a range critically interesting to industry: support for advanced technology, state procurement policy, merger policy, restrictive practices, patent law, tax harmonisation, transport policy, monetary policy and capital markets. Although in most of these achievement may not be striking the forward programme reduces tariffs to secondary importance.

This list of subjects makes no mention of agricultural policy recognised as the main impediment to British entry and the CBI takes it seriously. This is admirably non-political for the Tory front bench has created the impression (probably correct) that EEC agriculture

could be embarrassing only for a Labour government.

After various calculations based on differing assumptions about future developments in farm prices and food consumption in Britain and the EEC, the CBI concludes, on non-agricultural grounds, that costs to Britain at the higher end of the range (£500-£600 million a year) would be considered unfair by all concerned, that concessions to reduce them would be negotiable; and that at the lower end of the range (£ 200 million or so) empectations should be similarly discounted in view of the UK's modest negotiating strength and the EEC's proposed budget for agricultural improvement.

The CBI therefore suggests a cost to the balance of payments of some £400 million a year by the end of the transitional period. (This would also be the financial transfer to the EEC, assuming prices paid to existing suppliers remain unchanged; in all likelihood, though, these prices would tend to fall as sales of their produce to the UK diminished; higher levies would then be paid to Brussels, but at the expense of the UK's traditional suppliers, rather than the UK).

High Entry Price

The higher end of the range is in line with the estimates in the Pisani report, which took no account of the likelihood that food imports would be reduced by import substitution and by lower demand for foodstuffs (especially for butter, which would more than double in price). The proportions of total levies in an enlarged EEC which would be paid by Britain, implicit in the CBI calculations, range from 27 per cent to 40 per cent. Even at the higher figure, the levies would probably need to be supplemented from other sources; according to a recent EEC Council decision, the Commission will also have automatic recourse to national customs revenues from import duties, and to revenue from the tax on value added of up to one per cent, to meet the cost of the agricultural fund and other (much smaller) EEC commitments.

The substantially higher levy proceeds which the UK would bring, through membership (without any substantial UK claims on the FEOGA: Pisani put these at just over £100 million, against £650 million in gross transfers to the fund), would go far to avoid the need to call on these supplementary sources. On the basis of this year s FEOGA budget, plus the proposed Mansholt restructuring expenditure, a FEOGA including the UK could finance itself almost wholly through levies.

It would be optimistic (from the EEC s point of view) to project this picture for forward, because of the expected fall in UK food imports, and because the support costs inherent in EEC food surpluses are still escalating. Even so, the financial consequences of UK participation must seem attractive to the Six and there is no need to be gloomy about the UK's present negotiating strength, given the political will for wider membership in Paris, for which M. Pompidou and M. Schumann have affirmed their support.

The French agriculture minister has also stressed the high price that the UK would have to pay for membership, estimating that consequential price increases to British consumers would be 3 per cent overall. This assumption implies no abatement from the present EEC support price levels. However, it does not exclude some other form of abatement of the financial transfer (and hence of the balance of payments cost). There is no prospect of substantially lower farm prices in the EEC for a number of years yet. However, the present official UK attitude is that while British consumers must resign themselves to price increases of 3 per cent over the transitional period, implying food prices 11 per cent higher, the UK as a nation could nonetheless expect some compensation for its levy contributions, because a half or even a quarter of the levies that the UK would be bound to pay would leave existing EEC members much better off than today. The initial British negotiating position will be to propose only a minimal net financial transfer; this would imply a a negative budget (or customs duty) contribution to the Commission, or else some countervailing financial transfer to the UK attributed to some other aspect of the negotiations.

This position may well be domolished by the Commission which will be briefed with an agreed negotiating front in advance. If the Six can, no doubt, afford to be stubborn, neither side has any interest in setting the entry price too high. Even £400 million must seem a high price; West Germany in 1968-69 paid £116 million net into the fund; and this was largely its own fault for insisting on such high support prices for butter and grain.

Against this, the CBI tentatively suggests that the abolition of Britain's present tariff structure, and adoption of the common external tariff, would lead to saving on the balance of trade in industrial products. Conclusions drawn from price elasticities are adverse. Taking account of the loss of Commonwealth preference, and the relatively high UK tariff that would be (preferentially) abolished vis-a-vis EEC goods, imports would rise more than exports, through price effects. The CBI hopes, however, for a higher income elasticity of demand in the EEC for British goods, because UK exporters would concentrate more on the European market. The conclusions to be drawn from any analysis of the effects of changes in membership of a customs union are, however, in the existing state of knowledge, shaky. It would be unrealistic to expect a large net gain to set against the inevitable payments loss from agriculture.

Benefits of EEC

One should not, however, be mesmerised by the balance of payments in what is a process of transition. If the UK balance of payments suffers, it can be adjusted, if at a cost. In agriculture, this real cost would (on the basis of a £400 million financial transfer) be from about £480 to £600 million, plus the losses in output of higher-value goods owing to the enhanced attractiveness of agriculture to scarce factors: in all, at least 1.5 per cent of the national product. Any net gains from trade in industrial goods would tend to mitigate this, of course, except that the (putative) £400 million drain via FEOGA would not release any factors for other employment, and so does not in this respect complement the extra (net) industrial exports (if any) which would entail greater strains on the labour market. Consequently, apart from anything else, the transitional phase would entail fiscal or monetary deflation.

The chief benefits of joining the EEC that the CBI sees are that the larger market would enable successful firms to expand with economies on scale; while benefits from increased competition would accrue, since larger scale in such a larger market — would be consistent with a larger number of firms than exists in the British market. The words "larger market" have deceived some people. A "larger market" presupposes sealed units, the walls between which are to be abolished by EEC enlargement; whereas in fact we are talking about countries in which the major firms from all neighbouring countries trade actively across trade barriers which are mostly either low or non-existent. The tariffs are, moreover, often absorbed by the suppliers, who in mass-production industries, sell at prices ruling in the export market. If the tariff barrier come down, sucn an exporter gets

a higher price in the first instance — unlike in traditional international trading where the tariff is an extra on the delivery price. It will only do so indirectly, in that it increases the profitability of their export sales. This implies that the increased volume of trade expected from tariff reduction is already being largely enjoyed in advance, in such industries, even if the profit potential in them is not.

The CBI estimates the benefits to British industry from economies scale at about 1 per cent (in all, not per annum). This is probably about right and may even be on the high side, because even where scale effects are secured, *some* additional labour is required for additional output; and with a fully-employed labour force, even a massive opening of new markets can yield benefits of scale economies only where labour is released by firms which do not possess this potential. Moreover, this must be seen in relation to the hoped-for export gains. The CBI analysis puts this at some £330 million, which is an increase in total UK manufacturing production of just over 1 percent. Even in the scale-intensive industries, cost curves do not fall in a 1-for-1 ratio with production. Clearly, any impressive benefits must result from whatever stimulus EEC membership gives to restructuring of industry, rather than to a "larger market" *per se*.

Nationalism the Biggest Trade Barrier

The CBI has shrewd comments on European technology and a Europe-wide policy for industry. In this area, tariffs are either too low to be relevant, or are pointless because the real competition (usually with the European subsidiary of a US firm) takes place behind the tariff wall. The US firms have been less frightened of the difficulties imposed by variations in European laws and regulations on foreign subsidiaries than continental ones. Nowhere do these present barriers to establishment across EEC frontiers, the CBI report points out; but they cause many difficulties, especially if rationalisation or integration by merger is in process (US firms have generally set up new industries on new sites with new factories).

It is recognised that much of the fragmentation of advanced industries in Europe is due to nationalistic public purchasing. In other words, it should not be necessary to set up across frontiers, if it were as easy to sell to another European country's state railway or generating board as to one s own. The US firms have overcome these problems by being technically ahead and by employing local labour. IBM for instance, has had no difficulty selling in West Germany, where it has its largest European plant, though in the UK (whose state procurement is as nationalistic as any) it has found a British industry actively supported against it by government orders.

Logically, criticism of nationalism in state procurement implies a desire for greater international competition in sales to state agencies, not only to secure better terms for the procuring agencies (an aim they could presumably look after themselves) but also to ensure the selection and survival of the best suppliers over the wider market area. This is not, however, how the CBI sees it. The CBI says that "given the limited resources available, the strength of the competitive opposition" (American presumably), "the exigencies of the pace of scientific progress and discovery, Europe cannot afford to dissipate these resources in the unco-ordinated duplication in each country of research, development, and attempted exploitation in the advanced technologies". In short, it is difficult to gain the necessary volume of sales to justify the outlays in R and D, if competition is to be present; and anyway, there is often (though not always) American competition present or latent.

Purchasing Policies

Co-ordination of public purchasing would be the place to start. The CBI insists that "this is not an argument against competition; indeed we envisage tendering by multi-national consortia and soon, we hope, truly European companies". *Ad hoc* joint projects, such as Concorde or the European air-bus, are recognised as unpromising. The CBI prefers the joint subsidiary owned by two or more parents of different national origin. This differs from the *ad hoc* consortium only in degree, however, by having a more stable, and presumably more independent executive structure in immediate charge of the project. Whatever the CBI professes to believe about competition, such a formula would reduce it, in many cases to a European and an American supplier. This may well be inevitable in the circumstances in (say) large computer systems.

The EEC Commission has as yet no clear policy on this. It is feeling its way where its powers are ill-defined. Recently it proposed a regulation against state bodies favouring national suppliers on legal grounds but it is less clear whether it could intervene where the discrimination is on grounds of convenience, proximity, and other quasi-commercial considerations. To go to the other extreme and to discriminate against suppliers who are not multinational in some sense would be equally counter-productive.

While the Commission has regulatory powers, under both competition policy and free movement of goods, it is not essential that it should set rules determining participation in projects, or even that multi-national projects in advanced technology should be confined to EEC membership. This principle was conceded last autumn, when participation in work following the Aigrain

Report (which listed subjects of advanced technological endeavour for which R and D projects on a multinational but European basis are to be investigated, presumably to be followed by production projects) was opened to British and other European firms. Even if the UK and the other applicants join, there will still be the question of how to treat Swedish, Austrian and Finnish advanced-technology firms, and in some applications (e.g., a Europe-wide telecommunications-linked computer network) the markets of these countries too.

Discrimination against non-EEC-based firms in advanced technology is out of the question for a number of reasons. The Commission does not favour it. Membership of the EEC is therefore not inextricably bound up with the progress in whatever policy for technological advancement is possible — which is not necessarily the same as a policy of favouring one's own advanced-technology firms.

Future of Stirling

In 1967 the greatest obstacle seemed the sterling problem. Today the sterling balances arouse little concern, thanks to the 1968 medium-term Basle arrangements and better understanding of credit requirements against short-term money movements. The CBI hopes that, after entry, controls on the international use of sterling can be eased to allow London to become the capital market for Europe.

This may be over-hopeful. Although the balance of UK transactions in direct investment should shift after EEC membership (more US investment in the UK, and less British investment in Europe) the problem of portfolio investment worries the Treasury. Although it would still be permissible to stop capital outflows to third countries, there would be no effective way of doing so once the UK became linked to neighbouring countries that have no exchange controls. And if strains on the exchange rate ever developed after the controls were lifted, the funds that could flow out would be massive: this is the real problem of sterling in the present negotiations: uncertainty as to whether the UK can hold the rate if the balance of payments slips into deficit again. The belief that devaluation is ultimately the best way to adjust a balance of payments deficit has spread in the past two years — but not to Brussels. The Commission wants agreed exchange rate decisions as soon as possible, and fixed rates among members (which would not preclude a uniform adjustment of all rates) as an important step towards full integration.

Is this in the UK's interests? On wages, for example, the CBI foresees upward pressures after entry, due to rising food prices, higher money wages, more holidays, and better social security benefits, on the continent. Britain's economic miracle is not yet permanent. Rigidities imposed on the exchange rate could once again jeopardise full employment.

These are, in the end, matters of political preference. While it is true that there are costs of exclusion, which cannot necessarily be foreseen (so that the alternative to entry is not necessarily the existing one) these usually appear on examination to be the costs of delayed entry (the effects of which are that decisions taken without UK participation will bind us after entry). Given further initiatives in trade liberalisation through GATT and continued progress on standardisation, the main possible exception to this is defence, which is outside the EEC's existing competence, but which should be studied by any government considering integration with the Six.

Fiscal harmonisation, integration of demand management policies, mutual decision-making on exchange rates are all steps toward federal union, which the EEC at present seems minded to take, but none are integral to the EEC in the sense that governments could not achieve their purposes (apart from unity for its own sake) without belonging to the EEC.

The same could well be nearly true of trade. But it can never be true of military defence. The ability of European states to mount a modern nuclear capability, capable of impressing a great power and over-awing lesser ones, depends on wider membership leading towards federal union. That is what European integration must ultimately be mainly about.

Sources and Acknowledgements: The foregoing summarises, bysp ecial arrangement, a 30-page report in the latest issue of the quarterly *Economic Trends* published (to subscribers only) by the Economist Intelligence Unit (27 St. James's Place, London. S.W. 1) but the EIU is responsible neither for the emphasis of my summary nor for my comments based on a variety of sources.

Profits for Growth

R. V. MURTHY

EVEN AS the challenge to the private sector is becoming more and more pronounced in this country, spokesmen of the private sector also have begun to speak up, and rightly so. There are two issues today that cry out for answers before those who are required to participate in this country's future all round development could proceed uninhibited to play their vital role. These two issues are: the role of the private sector in the mixed economy that our rulers profess our economy to be, and the broad framework of our approach to economic problems. It is just as well, therefore, that both the outgoing President of the Indian Merchants' Chamber, Bombay, Mr J.H. Doshi, and Mr S.L. Kirloskar, who inaugurated the sixty-second annual general meeting of the Chamber recently, addressed themselves to these important issues.

To take the second issue first. What is essential at this juncture, as Mr Doshi said, is "to have a clear perspective so as to be able to decide the direction in which we want the country to move. If, under the influence of doctrinaire socialism, we move towards statism and jeopardise the existence of democracy in our country the resultant loss of freedom and frustration will only pave the way for anarchy and chaos." In this connection, we are tempted to quote from the address of Mr Charles B. Thornton, Chairman of the Board of Linton Industries Inc., US when he received the Business Leadership Award from the Michigan University some two years ago. Confronted perhaps by the call for a change by the extremist elements in the US similar to what we have been hearing lately in our own country, Mr Thornton must have made these observations, and they are, therefore, quite pertinent. He said... "our dissatisfactions with the existing state of things must not tempt us to endorse or support ill-conceived or frivolous change just for the sake of change. This kind of change may create activity but seldom, if ever progress. In fact, the reverse is usually true. Too often, these voices calling for change propose that the government must take over in order to build a better society. They want to change our basic concepts, to revise this nation's entire social and economic structure. They justify their proposals by pointing to pockets of poverty and unemployment, to civil disorders, crowded schools, and deteriorated housing in many of our central cities."

So, there is no need to get unduly panicky over such all too familiar cries the world over, but it is necessary, at the same time, as Mr Doshi pointed out, to

"seriously ponder over the issues at stake and evolve a strategy of development with imagination and statesmanship." To put the same idea in Mr Thornton's words, "we should certainly concern ourselves with the dislocations and imperfections and do all we can to eliminate them; but to do so effectively, we must assure ourselves that the changes made are positive and realistic ones which will not enlarge the very problems which we are attempting to minimise or solve." Frankly, it is this danger that many in this country seem to apprehend if the government pushes forward with the drastic proposals set out in the latest AICC Economic Policy Resolution of the ruling Congress. To quote Mr Thornton again, "creating and accomplishing economic development is a function best performed by private business and industry. When governments in other nations have limited or eliminated the freedom of the private sector to operate effectively, the price has either been national progress or the freedom of its citizens or both."

Social Responsibilities

There is no gainsaying the fact that constructive and progressive change is best nurtured by an enlightened free enterprise system. Business and business leadership is a critical factor in our society and its success or future will determine the well-being of man and even the survival of free society, as has been aptly said. Hence the great responsibility of this section of the community in the country, which must have prompted Mr Kirloskar to talk to the Indian Merchants' Chamber on "Social Responsibilities of Business". If leading industrialists in the country are talking of social responsibilities of business no less than the leaders of all political parties, it may be assumed in certain quarters (they will, in fact, choose to make such an assumption deliberately) that businessmen were all along oblivious of such responsibilities. As both Mr Doshi and Mr Kirloskar made it abundantly clear, some of our industrial houses have a brilliant record of contributing their best in nation-building activities and rendering service to their fellow-citizens. One has only to catalogue the educational institutions, hospitals, hostels and other public causes which have been assisted by the leading business houses in this country (in particular Tatas and Birlas). Indeed, the late Sir Mirza Ismail was a firm believer in harnessing the help of the business community, in particular the more better off of the lot, to supplement nation-building activities in the states he administered. Although he did not say so, there is ample evidence to believe that he was convinced that some of these businessmen could not only provide these amenities at less cost, but also manage them more effectively. As Mr J.R.D. Tata observed recently, more than even before, the private sector feels it is better able to make a contribution to the country's development today. This is because to use his own words, "the private sector has today reached a stage of development and expertise when it can make a massive contribution to the country's further economic development. The vast majority of India's entrepreneurs, large and small, are patriotic and socially conscious men who do not ask for special favours or large profits, nor seek monopoly or any concentration of wealth and power. All they want are the opportunities to exercise their initiative and skills to apply their resources for the country's benefit, as well as that of their shareholders, labour and customers, and to be left alone to get on with the job."

This is not to say that businessmen or the private sector is interested only in economic activities, although, as Mr Kirloskar explained, being in business does not mean that businessmen shy away from their obligations to society in other fields. As a matter of fact, his thesis is that, once one enters business, one automatically gets involved in social, educational and several other activities, besides economic. All the time, from the days of the great Jamshedji Tata, this is being done, but, as the retiring IMC Chief remarked: Much more remains to be done and, accordingly, he exhorted: "Let us involve ourselves in wider problems of the community, such as education, slum clearance in urban areas and medical relief to the less fortunate members of the society."

Role of Businessman

To turn to the other issue — the role of businessmen. This, we must say, Mr Kirloskar did marvellously in the course of his address. He not only explained the role of businessmen but also expatiated on whether it has any social significance. It was his thesis that, through the various payments than businessmen make — adequate wages to workers, reasonable dividends to shareholders, a large chunk to the public exchequer by way of taxes— "We contribute considerable amounts for the social welfare activities our government desires to undertake." By building a sound economic structure, he claimed, "we do social good." Another point he made, which sadly required to be made, especially after businessmen were deprived of functional representations in the legislatures after we got our independence, was that "we businessmen belong to the same society which our critics say they represent, our roots are as deep as theirs. Our tradition as businessmen is old and useful. And our history bears it out."

Towards a better future

Like Mr Thornton who instanced the development of a relatively small town in Arizona following the setting up there of a new plant by a company, Mr Kirloskar instanced the growth of Poona in recent years in the wake of the setting up of new industries by a large number of entrepreneurs. Being one of those who is genuinely proud of the businessmen's role in the country's economic and social development, he enumerated the manifold ways in which Poona and the people of Poona have benefited from the activities of businessmen. Apart from individual citizens who have benefited, he said: "The educated, the able and the ambitious of the city found productive and remunerative work in organised business. Through such work, they found new personal and social identities. The educational institutions found financial support fortified by the varied disciplines which the use of modern technologies business brought to the city. The citizens got new opportunities to acquire new skills, better the existing ones and use them in gainful employment for the support of their families. New ventures cropped up to build a class of new entrepreneurs, ancillaries, suppliers, transport-operators and many more. Poona now has elegant buildings, wider and cleaner roads, more and better theatres, eating houses, gardens and sports. There are more and varied cultural activities in which those engaged in business participate and to which they extend their financial support.

All these changes in Poona, as Mr Kirloskar noted, did not just happen. They are the result of deliberate and purposeful efforts of its citizens, with a large share [of such efforts] coming from businessmen." This, according to him, is true economic and social progress and he was proud to say, "we do it." And he went on to explain who this "we" are.

> "We are the entrepreneurs who start, manage and build enterprises;
>
> "We are the shareholders — several thousand men and women from all walks of life — who raise, invest and risk our money;
>
> "We are the workers and managers of all categories who come from all castes and religions and who work together to produce and sell — we number several lakhs;
>
> "We are the different services, transporters, suppliers, and distri-

butors — hundreds who employ thousands of men;

"We are the ancillaries and workshops — small now, but a sound base for future growth."

Contrast these businessmen with the old cartoon of a pot-bellied money-bag as our political leaders continue to associate businessmen with, and you see how all the mischief and campaign against businessmen started.

Buiseness and Development

Mr Kirloskar also did well to debunk the thesis that industries bring slums into existence, as though slums never existed before industries came. Even in 1915, when there were no industries in Poona, Mr Kirloskar, who ought to know his Poona where he has spent the greater part of his life, reminded his audience, there was the slum area of Bhokarvadi. But he did not justify this

nor is he one of those who would tolerate them. Men in business he declared, "desire their elimination as intensely as any crusading socialist does. But this way of life is difficult to change (and this is very true) because of the support and encouragement some politicians give to slum-dwellers.. I suspect such politicians thrive on the existence of slums." Unlike politicians, Mr Kirloskar pointed out why businessmen cannot accept such contradictions between one's action and one's declared aims. Even for their selfish motives, he said, businessmen want slums to go and living standards of citizens to improve. It would increase consumption and boost up production, open more employment and push living standards further up."

Businessmen, may not be perfect, but the free enterprise system is the best system so far that has yielded results not only elsewhere but in our own country. If politicians from different states, even Kerala, come to Bombay to invite businessmen to start factories in their states, it is because they realise, to quote Mr Kirloskar, "that business activities develop skills, put them to remunerative use, encourage growth of ancillaries and services which further grow into other enterprises. They also believe — and this needs to be underlined — that *the industrialists alone have the capacity and experience to undertake this process of economic development.*"

Mr Kirloskar did not stop with explaining the role of businessmen thus. He did one more yeoman service and that was to indicate why, in order to play this role effectively, businessmen have to succeed in bussiness and how they cannot succeed without earning profits. "We can earn profits", he said, "only by efficient and remunerative use of our resources. We have to earn on our investment and grow."

It is not for our sake alone that we have to develop ideas and attitudes about such concepts as profits. Mr Kirloskar was not exaggerating, therefore, when he said that. "if we damn profits at home, we weaken our capacity to raise money abroad." Moreover, those who damn profits have no right to expect, as they have begun to do lately, all public sector undertakings, which have thus far been a great drag on our economy, to pay 10 to 15 per cent per annum. They cannot be unaware that the Planning Commission too has assumed profits from these undertakings as a part of our resources for financing the fourth five-year Plan.

Regional Concept in Power Planning

SHARWAN KUMAR

AN ELECTRIC power system must comply with two essential conditions. Firstly, at any given time, sufficient capacity must have been created in the system for meeting peak demand. Secondly, there must be provision for meeting the demand of extra loads as and when needed. In other words for hydel plants, there should be sufficient water in the reservoir so that even during the dry season the system continues to work. Similarly, for a thermal plant there should be sufficient and continuous supply of the fuel.

It has been generally observed that the peak demand of a region is much higher than its average demand. The capacity has however to be provided in each region to meet its peak demand unless the regions, having peak demand at different timings, are connected electrically. A grid system (a system where power systems in different regions are inter-connected through Extra-High-Voltage (EHV) transmission lines) provides a more efficient system of electricity generation and transmission. It brings out various alternatives for capital investment in power production and distribution. Improvement in technology of EHV transmission lines may justify the pooling of different power systems and through improved efficiency of transmission lines it may be possible to transport electricity over long distances.

The question naturally arises as to what should be the basis for connecting different regions electrically. The whole economy of a grid system revolves round the fact that the reserve capacity for the combined system will in general be less than that which will have to be provided for all the regions in case they are electrically independent. From the demand side, the necessary condition for inter-connection of two regions through transmission lines is provided by the basic criteria namely, the existence of a dependable and predictable seasonal load diversity factor between the two regions. Let us assume that region 'A' has a peak demand P_a and region B has a peak demand P_b. If the regions have a load diversity factor, P_a and P_b will occur at different times. Let us further assume that the coincidental peak demand of the two regions is P_{ab}. Then, $P_a + P_b - P_{ab}$ is the load diversity factor. This will represent the saving in the capacity required to meet the demand of these two regions. As long as the cost of investment in inter-connecting the two regions is less than the cost of investment required for providing capacity of the order of $P_a + P_b - P_{ab}$ for generation of electricity, it may be desirable and economical to connect the two regions. It may be pointed out here that we have to take into account the load diversity factor not only as it exists today but that which could be expected for the whole plan period under consideration.

Economics of Power

From the supply side, the differences in the cost of investment and/or the operational cost could provide the necessary conditions for the formation of a grid. In general, the investment cost per kilowatt of a hydel plant is higher than that of a thermal plant. On the other hand, the running costs are rather low in a hydel plant, whereas they form a substantial part in a thermal plant. A number of suitable sites for hydel plants may be available in a certain region but the demand in that region may not justify having a separate generating plant there. In a neighbouring region the demand may be quite high but the cost of investment may be so high because of the non-availability of suitable site, that the generation cost may go up abnormally and in turn may affect adversely the cost of production of such industries as are large users of electricity. If however, such regions form the part of a grid these problems would be automatically taken care of. Further, in a hydel plant, the supply of energy over a

The author is a research officer in the Planning Commission. The views expressed in this article are in his personal capacity.

period of time is limited by the availability of water in the reservoir. The capacity of hydel plant might have been set up by taking into consideration the peak demand. This may lead to surplus energy during the rainy season and a net deficit energy during the dry season unless the water could be stored in the reservoir and its supply regulated for a constant flow throughout the year. Under a grid system a better alternative would be to consume the whole electricity in the rainy season by transmitting it to the neighbouring regions and during the dry season to get electricity generated in thermal plants and to transmit it to the region where the hydel plant is located.

Plant Capacities

Similarly, in the case of a thermal plant the cost of investment per kilowatt of a bigger thermal capacity is much lower than that of a smaller unit, and it may be more economical to install bigger units in regions which have a relatively lower operating cost per kilowatt hour even if the demand conditions in that particular region do not justify the same and it has to transmit the electricity to the neighbouring regions. If thermal plants with bigger capacities are located at or near the coal mines/washeries, the cost of generation of electricity could be reduced as the middlings which are obtained as a byproduct from the washeries could be gainfully utilized by such thermal plants at a nominal price. Moreover, the transportation cost which forms a substantial part of the price of the coal and middling could be completely eliminated. But it would necessitate the transmission of electricity to the neighbouring regions and it would be worthwhile investigating as to how far the cost of generating electricity at the coal mines/washeries and transmitting it to the neighbouring regions will be more economical than the cost of transporting coal to those regions and generating electricity in these regions. If the former alternative turns out to be more economical, as it is likely to be, it will lead to other secondary advantages, as for example, it will reduce the pressure on the rail/road traffic and the capacity now utilised for the transportation of coal and middlings could be employed elsewhere in the economy.

A grid system could be further justified on other economic grounds as well. It leads to more efficient use of scarce capital resources on two counts. Firstly, in a grid system, the investments in the electricity generating industry would tend to be made in such a way as to reduce the cost of generating electricity to minimum. Secondly, it would lead to a rational location of other industries in the economy wherein electricity forms a substantial part of the input cost. Under the system where grid is not operating, all such industries tend to be concentrated near power generating plants even though other input and factors of production may not warrant or justify their location at such sites. This in turn may be accentuating the disparities as between the regions and the regions which are backward may not attract capital at all and the establishment of industries in such regions may be discouraged because of high cost of power generation. However, when different regions are connected electrically, it would automatically lead to optimal location of the industries as power would be available to them, in any part of the region which form the part of a grid, at the same price. This in turn may help in reducing the regional disparities as well.

Minimising Generating Costs

The question could be asked as to what should be the basis of demarcating different regions? The well known linear programming technique could provide the answer. Various types of objective functions could be chosen for the present study. For example, we could either tend to maximise the rate of growth in various regions or to maximise the total benefit accruing as a result of grid formation in the economy as a whole or to minimise the total cost of generating, operating and transmitting the electricity in the system as a whole. Here we will formulate* the problem with the last criterion namely, the minimisation of the total cost as our objective function. Without going into any details about the engineering part of it which for our purpose could be treated as exogenous, the total cost of generating, operating and transmitting the electricity in the system as a whole will be minimised subject to a number of constraints, namely,

(1) The generating capacity of a plant in the whole system is positive. In other words obsolete plants and uncommissioned plants will be left out for the purpose.

(2) The total electricity that can be exported from a region is less than or equal to the total generating capacity of the region.

(3) For each region, at any given time, the total electricity generated in the region plus the net electricity imported into the region should be greater than or equal to the total demand of electricity for that region.

(4) For each region, the sum total of the generating capacity of the region plus the transmission capacity of the region should be greater than or equal to the peak demand for the region.

(5) The sum total the generating capacity of the system as a whole should be greater than or equal to the coincidental peak demand of all the regions.

The actual formation of a grid requires a long term planning for interconnecting power systems in different regions. This involves working out of the parameters like the estimation of future demands of various regions and the expected investment and operating cost in each region. As a first exercise, the model could be applied to the existing condition in any year for which the necessary data are available. Later on the model could be suitably modified to be applicable for any perspective period. Finally, it is only fair to add that there is a snag in the grid system though this has nothing to do with the economic arguments. In times of war, EHV transmission towers could be easily tampered with by the saboteurs depriving large urban centres of its power supply.

*The mathematical formulation of the model has not been discussed here

Eastern Economist 25 Years Ago

MARCH 30, 1945

Britain's altruism is without parallel in history. That at any rate, is the belief firmly held in the English-speaking countries, with the exception, perhaps, of some sections in the U.S.A. Has not Britain fought this war of unlimited liability with 'fanatical single-mindedness' and staked her all in the cause of human freedom? If she is found in possession of a big Empire, it is, of course, largely by accident and in spite of herself. If she continues to hold it, it will also be not because she is anxious to retain, but because in fairness to herself she cannot hand over the large backward masses of colonial populations to the local 'plutocracies' which will exploit them. Not that she claims perfection for her colonial rule. But her mistakes were due mainly to the inherent difficulty of her 'civilizing' mission rather than to her own cussedness. The peoples of her dependencies who form the greater of the world's population might complain they are experiencing not British benefits, but only bonds, that, of course, is ignorance of sheer ingratitude.

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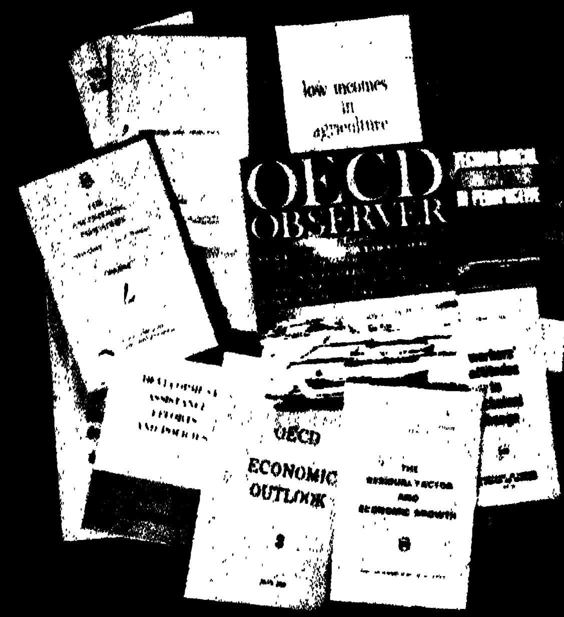

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Economic Policy Committee

A major forum for reviewing current economic trends and prospects, exchanging ideas and, when necessary, advising on appropriate courses of action. Meetings of the Committee, which take place several times a year, bring together top-level officials directly concerned with economic and financial policy formulation. More continuous and detailed scrutiny is ensured by the work of three specialised Working Parties, dealing respectively with problems of the balance of payments, economic growth, and cost and price stability.

Among reports and studies published :

- **OECD Economic Outlook :** *a twice-yearly detailed survey of economic trends and prospects over the coming year or so, for individual countries and the industrialised world as a whole ; examines the situation regarding demand, output, cost and prices, and foreign trade.*
- **Economic Growth, 1960-1970 :** *a mid-decade review of the achievement so far and of the prospects for fulfilling the aim of raising the combined output of OECD countries by 50 per cent during the decade.*
- **Policies for Prices, Profits and other Non-Wage Incomes :** *a study of the problems involved when an incomes policy is applied not only to wages and salaries, but to other incomes as well.*
- **The Balance of Payments Adjustment Process :** *discusses the means whereby disequilibria may be kept within limits and eliminated with reasonable speed.*
- **OECD Economic Surveys :** *reports drawn up following the annual examination of the economic trends of each Member country and Yugoslavia ; each study is accompanied by a commentary on the policy measures applied.*
- **Techniques of Economic Forecasting :** *new methods utilised by the public administrations of certain Member countries to improve the precision of short-term economic forecasting.*
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- **Policies for Economic Growth and Policies for Price Stability :** *analysis of the instruments available to public authorities in maintaining the general level of demand while avoiding risks of inflation; the main emphasis is on incomes policies.*
- **Statistics of National Accounts.**
- **Foreign Trade Statistics Bulletin.**

Trade Committee, Committee for Invisible Transactions

OECD's Trade Committee, in pursuance of the objective of extending world trade on a multilateral non-discriminatory basis, considers problems confronting Member countries in their trade relations with each other and with third countries. The Committee also keeps the Organisation in touch with the work of the United Nations Conference on Trade and Development (UNCTAD).

The Committee for Invisible Transactions is concerned with liberalising international capital movements — direct investment, portfolio investments, credits and loans, the purchase of property and personal transfers such as inheritance ; and current invisible operations — transfers of interest and profits, royalties, tourist expenses, etc.

Among other Committees in the field of international trade and payments are the Fiscal Committee, Insurance Committee, Comittee of Experts on Restrictive Business Practices, Tourism Committee, Maritime Transport Committee.

Among reports and studies published :

- **Capital markets study :** *General Report. Formation of Savings. Functioning of Capital Markets. Utilisation of Savings. Structure of Interest rates in some OECD countries.*
- **Guide to Legislation on Restrictive Business Practices in Europe, North America and Japan :** *contains all the legislation relating to restrictive business practices in OECD Member countries and EEC, authoritative commentaries by official specialists, a selection of administrative and court decisions and bibliographical information.*
- **Fiscal Incentives for Private Investment in Developing Countries.**
- **Supervision of Private Insurance in Europe.**
- **Border Tax Adjustments and Tax Structures in OECD Member Countries.**
- **Tourism in OECD Member Countries, Annual Report.**
- **Maritime Transport Committee Annual Report.**
- **Code of Liberalisation of Current Invisible Operations.**
- **Code of Liberalisation of Capital Movements.**
- **Liberalisation of International Capital Movements - Japan.**

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One of the aims of OECD in the field of development aid is the co-ordination of aid provided by its Member countries. Co-operation among these countries—whose contributions represent 90 per cent of the global aid supplied to developing countries—has become increasingly necessary because of the volume of aid, the number of beneficiary countries, and in many cases the existence of several sources of aid to the same recipient country.

Among OECD Member countries, the principal donors of aid co-operate in the Development Assistance Committee (DAC), which is concerned with promoting an increase in the volume of aid and an improvement of the terms on which it is provided.

Among reports and studies published :

- **Development Assistance Efforts and Policies 1969 Review.**
- **Promotion of small and medium sized firms in Developing Countries through collective actions.**
- **Technical Assistance and the needs of Developing Countries.**
- **Aid to Agriculture in Developing Countries.**
- **The Food Problem of Developing Countries.**
- **Population Control and Economic Development.**
- **Geographical Distribution of Financial Flows to less Developed Countries.**
- **A global Directory of Development Finance Institutes in Developing Countries.**

Industry Committee , Energy Committee

The Industry Committee and the Special Committees for Iron and Steel, Textiles, Chemical Products, Machinery, and Pulp and Paper are responsible for studying and discussing industrial problems which require co-operation among Member governments. A similar role, in their specific fields, is played by the Energy Committee and the Special Committee for Oil.

Among reports and studies published :

- **Energy Policy, Problems and Objectives :** *the next fifteen to twenty years will be a period of great change for the energy industry. Governments have a responsibility to ensure that energy demands are met in the best possible way in the light of cost and convenience to customers.*
- **Oil Today.**
- **Provisional Oil Statistics by Quarters.**
- **The Gas Industry.**
- **The Electricity Supply Industry.**

Reports are regularly produced on all main industrial sectors covered by the Special Committees noted above. Among them may be mentioned :

- **The Situation in the Shipbuilding Industry.**
- **The Chemical Industry.**
- **The Engineering Industries in North America, Europe and Japan.**
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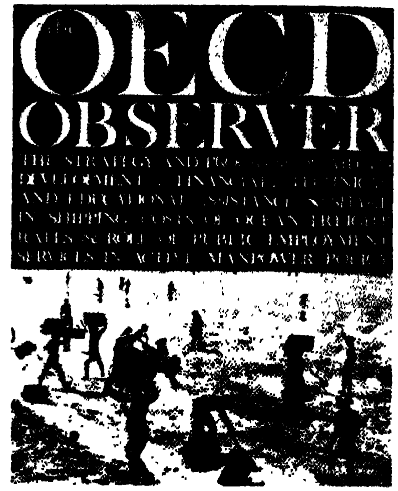

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FROM THE PRESS GALLERY

An Unconvincing Reply

OUR PARLIAMENTARY CORRESPONDENT

NEW DELHI, Saturday:

ALTHOUGH, REPLYING to the Lok Sabha debate on the 1970-71 union budget, the Prime Minister and Minister for Finance, Mrs Indira Gandhi, made a valiant effort to defend her taxation proposals, her defence apparently did not make much impact on the critics. This was due to the fact that a major portion of her reply was confined to ideological sallies at some of the opposition groups. She did not even touch upon the criticism of her direct taxation proposals. In regard to the inflationary impact of her budget, she just remained content with stressing that even if the entire incidence of the excise duties proposed by her was passed on to the consumer, the wholesale prices index would not go up by more than 0.5 per cent. She avoided taking into consideration the overall effect of the various imposts proposed.

Poor Man's Budget

True, the Prime Minister had been selective in proposing additional excise duties and had attempted to discriminate in favour of the poorer sections of society but she completely sidetracked the adverse effect which the increase in income-tax and wealth-tax on the more affluent sections of society will have on capital formation. The increase in the public sector outlay of the Plan programmes for the next year, as Mrs Gandhi observed, should lead to some expansion in economic activity. But if as a result of slowing down of capital formation, the investment in the private sector does not go up as envisaged in the Plan draft, the overall increase in investment in the economy may only be marginal.

The scant respect which the Prime Minister showed for the opposition's criticism of her proposal is evident from this observation of hers. Referring to the plea of Mr M. R. Masani (Swt) for reducing the tax burden in the interest of curtailing tax evasion and giving a fillip to the economy, she ironically observed that extending this argument logically, if "income-tax, excise and customs are all zero, income would be infinity." The Prime Minister, obviously, did not appreciate that Mr Masani's argument was based on the operation of the law of increasing returns in taxation, it was no arithmetical calculation.

Mrs Gandhi conceded that her's was a political budget. She took pride in this and stressed that budgets should not degenerate into mere statements on receipts and expenditure; they were expected to set out the directions in which the government wanted to lead the country. Her budget, the Prime Minister said, reflected the political philosophy of the present government.

Social justice, Mrs Gandhi observed, was not only compatible with economic growth but was also an essential condition for sustained and orderly growth. If the budget put emphasis on social justice, it, therefore, did not mean that it ran contrary to the interests of economic growth. The Prime Minister reminded the critics that the experience of the mid-1960's had thrown up in bold relief the fact that the investment in the public sector was the pace-setter in the economy. "A significant reduction in the public sector investment" she said, "results also in recession in the private sector. This, in turn, leads to sluggishness in the growth of revenues of the central and state governments necessitating further caution in regard to investment programmes in the public sector. This is a vicious circle of slow growth in revenue resources and decline in the rate of investment and it has to be broken at some point". The present budget, she emphasised, sought exactly to do this.

Defence of Public Sector

But the Prime Minister's defence of the performance of the public sector left much to be desired. Although she envisaged an expanding role for the public sector and said that the government wanted this sector to occupy the key position in the economy, she brushed aside the heavy losses incurred by several public sector undertakings by just pointing out that they were capital-intensive ventures belonging to the infrastructure of the economy and that the recent recession was primarily responsible for the underutilisation of their capacity, as had been the case with many a private sector engineering unit. In an attempt to apparently justify the losses incurred by Hindustan Steel, she alluded to the working of the Tata Iron and Steel Company (TISCO) in its initial stages and said that after a maiden dividend in 1915-16— seven or eight years after the incorporation of this company—the ordinary dividend was paid by it on a regular basis only from 1940-41 onwards. Presumably, the Prime Minister did not appreciate the conditions in which TISCO had been set up under an alien rule which, as historians tell us, did not favour industrialisation of this country.

Mrs Gandhi stoutly denied that the revenue for the next year had been over-estimated by Rs 100 to 150 crores, as alleged by Mr Asoka Mehta (Cong-O). The revenue estimates, she said, had been worked out most carefully without any under-estimation or over-estimation and they reflected the best judgment as of today. She, however, admitted that the revenue from direct taxes could vary from the estimates presented in the budget.

Assistance to States

The Prime Minister's defence for the provision of Rs 175 crores in the budget for special assistance to states apparently did not carry much conviction with the opposition members. She explained that this was an anticipatory provision which would be disbursed according to the criteria to be worked out by the Planning Commission. The allegation of the opposition members that this huge amount would be used for political purposes, she declared, was not warranted.

Not satisfied with this explanation, several members, including Mr D. K. Kunte (Ind.), Mr Madhu Limaye (SSP) and Mr Nath Pai (PSP) emphasised that in the absence of detailed explanation regarding this provision, the House could not be asked to vote on it. The objection, however, was overruled by the Speaker the next day after detailed consideration.

With the mobilisation of as much as Rs 45 crores additional revenue for the states through the central budget and the tax effort of the state governments themselves, the Prime Minister hoped that the states would not run into unauthorised overdrafts on the Reserve Bank.

Mrs Gandhi urged the House not to judge the budget on the basis of the incidence of her taxation proposals alone. She pleaded that due consideration should also be given to the welfare schemes proposed by her.

WINDOW ON THE WORLD

Wage, Interest, and Growth Rates

JOSSLEYN HENNESSY

LONDON :

I

THE T.U.C. AND THE UK

"IT IS now being said that there is going to be a wages explosion, an avalanche, a flood, even a tidal wave. But I do not see it that way. . . .there is nothing remarkably new in people wanting more pay," Mr Victor Feather, general secretary of the British Trade Union Congress, said recently. There is indeed nothing new in people wanting more money, but Mr Feather added that if the Chancellor of the Exchequer did not get the economy expanding more rapidly and reduce unemployment, then workers — presumably with the encouragement of the TUC — "will start to stimulate demand through wage increases."

Now that *is* something new. The unions would then no longer be attempting to push wages to the level that the market will bear but to frame their demands in the light of what *they* considered to be the desirable national growth target. Though there has been an unceasing argument for many years, as to, what that target should be, nobody has so far disputed that it is the government's job to fix it through its management of the economy. The government's view at any given stage may well be criticised; there will always be some who want the economy to expand faster or slower. What no one before Mr Feather has suggested is that an outside agency, responsible neither to Parliament nor to the electorate, should take on the job of running the country.

Mr Feather is widely regarded as a reasonable man and his statement presumably represents nothing more than an attempt to hold a balance between what the wild men in his movement want and what he considers practicable. The latest Bulletin of the Ionian Bank (64 Coleman St., London E.C. 2.) says that what is remarkable — is not that he should have said what he did say but that neither the Prime Minister nor Mr Jenkins apparently think it necessary to point out that no government could simply abdicate its powers in this way. In this view the bank is, I suggest, being somewhat naive, seeing how the government in fact has abdicated already its reponsibilities. As I reported here on August 22, 1969, and February, 13, 1970, throughout the whole of 1969 the government retreated before the TUC assault from one position after another.

II

CHEQUERS 1970?

In contemporary economies the effects that wage demands have on costs, profits, and prices have close links with interest rates. This week's Fortnightly Letter of the Berliner Handels-Gesellschaft Bank of West Germany topically recalls that almost exactly three years ago, the Ministers of Finance of the four major European countries and the USA met at Chequers, the British Prime Minister's country house, to discuss the possibility of lowering interest rates internationally. The main result of this conference, convened largely on British initiative, was that the participants agreed to ensure that, within their respective spheres of influence, the interest rates of the five countries should be reduced more than it would have been possible without such co-operation. The Ministers welcomed the credit relaxations that had recently been effected by some of the countries concerned, while acknowledgeing that the restrictive policy pursued to check inflationary pressure had proved useful. Today, however, a few more relief measures would aid the growth of the economy of those countries and of the world.

International Interest Disarmament

Today, as three years ago, there are people pressing for international interest disarmament." Let us therefore recall the situation early in 1967 and see what results the Chequers conference actually had and what prospects there are now for concerted action to lower interest rates.

To begin with West Germany: During those weeks the West German economy happened to be in the trough of an econnmic wave. The Bundesbank had reduced the discount rate from its 1966 peak of 5 per cent by 0.5 per cent, and released minimum reserves reluctantly. Although it was blamed for stepping too gingerly, its restraint was sensible, because at the then interest rate differentials, newly created liquidity was immediately chanelled abroad, mostly to London where desperate attempts were being made to support the balance of payments by drawing money into the UK by record interest rates, whereas for the UK domestic economic situation an easy money policy would have been preferable. That was why the British government took the initiative of convening the Chequers conference. Press reports at that time suggested that London thought that it was largely up to West Germany to take steps to lower the international interest rate level.

American Effort

The situation in the USA was explained in President Johnson's State of the Union message, which had just come out, in which he had promised to do all possible to lower interest rates. The official discount rate in New York at that date was 4.5 per cent, the prime rate 6 per cent. Judged by the effort expended, the tangible result of the Chequers conference was modest and of limited duration although neither in West Germany nor in other major industrial countries — except in the USA— did boom conditions prevail that would have called for high interest rates. Despite the US President's declaration, the discount rate was lowered by no more than 0.5 per cent. Already in the autumn of 1967 rates rose again to the level of the year's beginning and in the following years they went up to the present record figures (discount 6 per cent, prime rate 8.5 per cent).

An almost parallel development took place in the other Chequers conference countries. In West Germany, in France, and in the United Kingdom, but also in the Netherlands and Canada, the enjoyment of declining interest rates was fairly short-lived. The reasons why the ministers, according to their own admissions, lost their grip on interest rates can be gathered from the official economic indicators, especially — the trend of prices. In West Germany, the recession was, from the autumn of 1967 onwards, considered to have been overcome and the danger of another relapse to have been warded off. In most other countries economic strains increased rapidly, prices soared ever faster and forced the authorities to restrict. As a result of the measure taken to protect the US balance of payments, the American money and capital markets have become price leaders, pulling the West German markets along strongly once DM revaluation had drained off the artificially swollen influx of money.

Against the background of the sobering figures of 1967, the prospects for the success of an international agree-

ment to lower interest rates today do not look promising. Notwithstanding the recent pronouncement of the US Secretary cf the Treasury that we were possibly closer to a decline of interest rates than most people believed, nothing suggests an early and drastic reversal of US interest rate policy. Significantly, President Nixon in his message to Congress was — more cautious than his predecessor and emphasised the independence of the monetary authorities. Although it may be conceded that a recessive trend began in the last quarter there are two weighty factors that make it easier, or even necessary, for the American authorities to keep to the present restrictive line: despite easing overall demand, unemployment in the USA remains almost at the low point recorded immediately after the Korean War; the inflationary price boom, on the other hand, has clearly accelerated during the past few months: in January, preliminary reports showed the index of wholesale prices making the greatest leap of the postwar period. Going easier on the brakes, which is what some observers expect for the next few weeks, would therefore be merely symbolic.

The present extremely high interest level is not without its dangers but there is only one (safe) way to get interest rates down: the excess steam in the economy must be left off to create a normal temperature. But here opinions obviously differ. There are, after all, some factors in economics as incompatible as fire and water. In the long run low interest rates are incompatible with artificially pushed growth, and wage increases that do not effect prices are incompatible with consistently excessive demand on the labour market. In other word; higher rates of price rise entail higher interest rates. He who insists upon lower interest rates must logically let the present wave of high economic activity and high prices run its course.

III

WEST GERMANY IN 1970

The West German economy after an upsurge of two and a half years is now apparently slowing down, even if production and performance indices available at present still point upward; in November, many branches of industry even achieved new production records. At the same time, however, growth of order books has weakened, a development predicted by the West German economic institutes in spring 1969 for the second half-year but which has generally gone ignored, according to the latest forecast of the authoritative Deutsche Institute für Wirtschaftsforschung (See this page last week).

There is more at stake than a weakening of growth: in the closing months of 1969 total ordering in manufacturing ceased to expand. Orders from domestic buyers in capital goods recently show even more of a declining tendency; this is true of foreign orders in all manufacturing sectors. Only domestic orders in consumer goods manufacturing has recently shown any significant increase. This corresponds to the pattern of a surge in disposable income in the late stages of an economic upswing. The lessening in intensity of the upswing is shown in the results of the IFO business cycle test. In recent months, manufacturers have begun to show reserve concerning future business development a parallel to 1965.

Two things characterise these phases of the business cycle: increasing emphasis on prices in wage bargaining and the demand for anti-inflationary measures. Since autumn 1969, there have been increased rises especially in industrial producer's prices, particularly for capital goods. Since September, specific wage costs, sparked by strikes and the subsequent wage increases, have steepened. September also saw the Bundestag elections; it had been widely suspected that the relative moderation exercised by business before the elections would thereafter be discarded and the good price raising possibilities offered by the market situation be exploited to regain lost ground. The sudden price rises in October — the price index on domestic sales of manufactured goods increased by 1.2 per cent over September, on capital goods even by 2.3 per cent — bore out this suspicion.

It is of course,true that price increase on this scale were possibleonly because of the extraordinary good business situation. Whether one assigns greater importance to the wage cost increases, or to the politically motivated postponement of price increases until after the election, determines how one views prospects for future price development.

Effects of DM Revaluation

In private consumption, there was also a notable acceleration of price rises in the late months of 1969. Stability of food and beverage prices to some extent balanced the price increases in other goods and most services. Thus the cost-of-living index for private households had by the end of 1969 only gone up by a little more than 3 per cent on the year. The price forecast for this sector depends on the development of foodstuff prices, as prices for other goods and services will probably continue to climb. Only since the beginning of 1970 have foodstuffs been exposed fully to the price-reducing effects of the DM revaluation ; downward price revisions became effective for several goods simultaneously. The heavy competition at the marketing stage presumably will ensure compensating effects from this sector in the coming months. It is also to be expected that price dampening effects from the revaluation in goods other than foodstuffs will become ever more noticeable. The yearly rate of price increases in private consumption will therefore hardly exceed the "critical" 3 per cent level.

Concerted Action

The DIW's price diagnosis might be challenged at present as too optimistic in the light of the unusually heated wage bargaining now going on. The sceptic can further point to the outcome of the "concerted action" of January 12, 1970, whereby in contrast to 1968 and 1969 (years of economic expansion) no agreement could be reached between government, workers, and employers on what was possible in wage rises. The increases of 10 to 12 per cent that have conceded since September 1969 are likely strongly to influence current negotiations, but the DIW believes that wage bargaining sessions with similar outcome in the months ahead should be regarded more as intersectoral income adjustment than as a continuation of an already moving price-wage spiral.

Notwithstanding income-distribution arguments concerning the justice of such wage increases, there can be no spiralling process unless union wage settlements exceed this margin, and the DIW thinks that this is unlikely. The moderate wage salary increases of the public service settlements calm any fears of escalation initiated from the public sector. The previously mentioned economic indicators, which now hint at a definite change in the business climate, are more likely to have a decisive influence on wage talks. Firm restrictive measures (especially monetary policy) will increasingly show their effect.

In the overall view, the DIW reiterates its forecast for 1970 published last autumn: continued production increases with capacities fully utilised and for a time growing backlogs of orders in the first half of 1970; flattening of production increases with decreasing utilisation of capacities and reduction of the large backlogs in the second half of 1970.

Is Himachal Over-dependent on Central Aid?

An impression has been created that Himachal Pradesh is over-dependent on Central grants-in-aid and loans and that States of the Indian Union do not get these and depend on their own resources.

This is contrary to facts as the following figures prove:

1969-70 BUDGET ESTIMATES (Rs. in crores)

Name of State	*Total deficit*	*Shares of taxes*	*Grant-in-aid from the Central Govt*	*Loans from the Central Govt.*
Himachal Pradesh	35.41	NIL	24.11	11.30
Jammu & Kashmir	61.68	7.49	24.98	20.00
Haryana	47.70	18.40	7.30	20.72
Punjab	56.83	12.74	11.13	23.51
Assam	114.42	17.69	45.85	44.27
Tamil Nadu	158.52	40.68	31.12	57.21
Andhra Pradesh	221.50	36.48	95.08	89.95
Mysore	153.03	27.21	39.97	51.25
Gujarat	110.65	26.19	22.03	32.17
Orissa	112.72	20.04	43.06	26.43
West Bengal	138.01	45.57	28.25	51.47
Madhya Pradesh	147.52	33.27	32.63	58.57
Kerala	89.61	22.26	31.99	27.07
Maharashtra	129.98	58.26	21.16	54.64
Rajasthan	130.22	21.92	40.06	46.52
Nagaland	29.40	5.64	17.72	5.41
Bihar	176.08	45.00	26.81	73.58

It is obvious that out of 16 full-fledged States of the Union of India, eleven get larger grants-in-aid from the Central Govt. than Himachal Pradesh, 15 get bigger central loans than Himachal. Besides, the above 16 States receive share in Taxes which is denied to Himachal, being a Union Territory.

Issued by:

Public Relations Department

HIMACHAL PRADESH

Trade Winds

ALUMINIUM PRICES

UNDER Section 3 of the Essential Commodities Act 1955, the central government has regulated with effect from March 20, the price of aluminium and its manufactures including semis produced by the units registered or licensed under the Industries (Development & Regulation) Act, 1951. For the present, the government has fixed the sale prices of the items at the ex-factory price level prevailing on February 28, 1970, pending examination of the price structure of the industry by a suitable agency at a very early date. The ex-factory prices will be inclusive of dealers commission, if any, but exclusive of excise duties central sales tax and also exclusive of local taxes, transportation and insurance charges, if any.

Prior to the issue of this order, there had been an informal price agreement with the primary producers of aluminium. According to this agreement, subsisting since August 1967, part of the then prevailing excise duty was being absorbed by the producers. Following the 1970-71 budget proposals, in which the excise duty on aluminium has been rationalised, some producers demanded an increase in their ex-factory prices. This order seeks to continue currently the prices at the pre 1970-71 budget level, while an examination of the price will be taken up separately for an early decision.

VANASPATI PRICES

Prices of vanaspati were increased by 30 paise per kg in all zones. The increase is due partly to the further rise in indigenous oil prices during the past few weeks, and partly to the new levy of excise duty on tin containers used for packing vanaspati, imposed recently. The extent of increase is slightly higher in the case of small packs due to the higher incidence of excise duty on these sizes. The revised prices, which take effect from March 18, 1970, have been notified by the government under the Vegetable Oil Products Control Order, 1947. Separate prices are being fixed for sale by producers, wholesalers and retailers. The maximum retail prices (in rupees) of vanaspati in the different pack sizes, and when sold loose, exclusive of sales tax and other local taxes (in the order of packs of 16·5 kg, 4 kg, 2 kg and loose per kg respectively) in each zone will be :—

	16·5 kg	4 kg	2 kg	loose per kg
North	88·40	23·27	12·14	5·36
South	88·15	23·21	12·11	5·34
East	88·79	23·37	12·18	5·38
West	88·86	23·38	12·19	5·39

AMMONIUM SULPHATE PRICES

The union government has decided to reduce the price of imported ammonium sulphate (coloured or powdery variety) by Rs 50 per metric ton with effect from March 16, 1970. As a result of this reduction, the retail price of this fertiliser for cultivators will be Rs 429 per metric ton (100 kg packing) and Rs 440 per metric ton (50 kg packing).

U.S. COTTON

At the request of the union government, the United States will supply 125,000 additional Indian bales of cotton this year under the Public Law-480 programme. The supply is expected to help meet the current high demand for the fibre and arrest the recent rise in prices. To provide for this additional cotton, Mr A. T. Bambawale, Joint Secretary, Ministry of Finance, and US Ambassador Kenneth B. Keating exchanged notes today to amend the Public Law-480 agreement which was concluded on October 13, 1969. The agreement of October 1969 provided for the supply of three million tonnes of wheat and 125,000 Indian bales of cotton. Since that agreement was concluded, adverse weather conditions affecting cotton production have brought about a reduction in that crop. This exchange of notes provides for the quantity of cotton covered by that agreement to be increased from 125,000 to 25,0000 Indian bales. At the same time the quantity of wheat to be supplied by the United States will be reduced by 250,000 tonnes, which is equivalent in value to the 125,000 additional Indian bales of cotton. There is, thus, no change in the total value of commodities to be supplied under the PL-480 agreement of October 13, 1969.

COTTON DISTRIBUTION

The Indian Cotton Mill's Federation has pointed out that the 50,000 bales of global cotton which the union government has allowed for import are being offered to all mills on spindle basis for spindle shifts worked in any one of the three calendar years, 1967, 1968 and 1969. This cotton consists of 17,650 bales of cotton from the UAR and the balance from all other global sources excluding UAR and Sudan. The basic quotas work out at one bale of Egyptian cotton per 6 8 lakh spindle shifts and bale of other global cotton per 3 7 lakh spindle shifts. The shipment period is September 30, 1970. No PL-480 cotton is linked to this distribution of global cotton. Mills desirous of participating in this distribution have been requested to send returns in the prescribed form so as to reach the Indian Cotton Mills' Federation by March 28.

INDO-AFGHAN TRADE PACT

India and Afghanistan have signed an agreement to extend the existing trade arrangements to cover wider economic co-operation between the two countries. India will extend financial assistance to Afghanistan in a series of projects including the construction of 360 kilometre road which will open up a trade route for this land-locked country into the Persian Gulf. This project is expected to boost not only trade but economic co-operation between the two countries.

EXPORTS IN JANUARY

An all-time high in our exports was achieved in January 1970—the first month of the Crash Export Drive. Exports in January 1970 totalled Rs 145·04 crores as against Rs 118·3 crores in the preceding month and Rs 115·7 crores in the corresponding month last year. As a result, the export growth rate, which had declined to less than one percent during April-November 1969, has now gone up to almost four percent for the ten-month period, April 1969—January 1970. Another notable feature is that, in January, exports exceeded imports by as much as over Rs 16 crores. This is the fourth time in the current financial year the country has had a favourable trade balance. On the other hand, imports during the ten-month period ending January 1970 were less by over 18 per cent, as compared with the same period in the previous year. As a result of the rise in exports and fall in imports, the trade gap has narrowed considerably—almost to one-sixth of last year (from Rs 394 85 crores in April-January, 1968-69, to Rs 66.98 crores in the same period in 1969-70). The figures for January 1970 and the cumulative total for the ten months April 1969—January 1970, as compared with the corresponding period in the previous year are given in table below.

(Rupees in crores)

	January		Cumulative total for April to January	
	1970	1969	1970	1969
Exports (including re-exports)	145·04	115·71	1185·12	1140·24
Imports	128·62	147·02	1252·10	1535·09
Balance of trade	(+) 16·42	(—) 31·31	(—) 66·98	(—)394·85

INTERNATIONAL FAIR IN DELHI

The Third Asian International Trade Fair will be held at New Delhi in early 1972. An offer made by the union government in this regard has been accepted by the United Nations Economic Commission for Asia and Far East. Organised with the support of the ECAFE, the Fair was first held at Bangkok in 1966 and 35 countries participated in it. The second Fair was held at Tehran in 1969 and 40 countries participated. It is expected that over 50 ECAFE and non-ECAFE countries, besides leading business houses of this country, public sector undertakings and central and state governments, will take part in the ensuing third Fair. The purpose of the Asian Fair is to promote trade among the Asian countries, and also between these countries and the rest of the world. For this purpose, the non-ECAFE countries are also invited to participate. In Bangkok, as many as 19 countries and in Tehran 26 countries from non-ECAFE region participated. It is expected that this country with her industrial progress and technological advancement can derive great benefit from hosting the third Asian Fair. Our achievements in various fields like light and heavy engineering, chemicals and fertilisers, iron and steel, aeronautics, ship building, power and atomic energy can be usefully displayed. On the other hand, the pavilions of other countries will enable India to take a comparative view of her performance and achievements.

RAILWAY EXPERTS FOR IRAQ

Two teams of Indian Railway experts—a Supervisory Team and a Field Team—left for Iraq recently to undertake a feasibility-cum-cost study for a new railway line. The Supervisory Team consisting of Mr M. Menezes, Director, Research, Designs and Standards Organization (Leader) and Mr M. G. Nair, Jt. Director (Works), Railway Board, will hold discussions with Iraqi officials and help organise the survey. The Supervisory Team will return to this country after a fortnight's stay. The 6-member Field Team headed by Mr V. K. J. Rane, Deputy Chief Engineer, Western Railway, will remain in Iraq for 4 months to conduct filed surveys. The Super-

visory Team is likely to visit Iraq again to finalise the project report. The question of Indian experts visiting Iraq was discussed in New Delhi during the visit of His Excellency Mr Adnan Ayoub Sabri Al-Izzi, Minister of Communications, Iraq, in January this year.

GUR FORWARD CONTRACTS ACT

In view of a bumper sugarcane crop and consequential slump in gur prices, notifications were issued by the union government lifting the ban on futures trading in gur. The government has now considered it essential to ensure that such futures trading is conducted in an orderly manner and all the undesirable effects and improprities, which could arise from unregulated futures trading, are eliminated. Consequently steps are being taken to apply section 15 of the Forward Contracts (Regulation) Act, 1952, to gur. After the application of section 15, futures contracts in gur will be permitted only between with or through members of an association recognised in this behalf under section 6 of the Act. In view of the urgency for regulating futures trading in gur, associations desirous of being recognised in this behalf have been asked to submit their applications for such recognition in the manner prescribed under the Forward Contracts (Regulation) Rules 1954, to the Forward Markets Commission, by March 30, 1970.

LEVY AND FREE SALE SUGAR

The union government has issued orders for release from sugar factories of 233,000 tonnes of levy sugar to the state governments and 100,000 tonnes of sugar for free sale. Free sale quotas will be valid for despatch by the factories for thirty days from March 24, 1970.

NATIONAL SAVINGS CERTIFICATES

The three new series of 7-year National Savings Certificates, announced by the union government on February 28, 1970 which are available at post offices doings savings work, are also on sale from March 16, 1970 at the offices of the State Bank of India and its subsidiary banks. The certificates are being printed and investors will be issued with temporary receipts, which may be exchanged later for the certificates.

PRESIDENT'S RULE IN WEST BENGAL

The President rule was imposed in West Bengal on March 19, 1970 following a recommendation of the state Governor, Mr S. S. Dhavan. The state assembly, however, remained suspended and not dissolved.

INTER-COMPANY LENDING CURBS

The Minister of State for Finance, Mr P. C. Sethi, stated recently that the government intended to devise further suitable measures, in consultation with the Reserve Bank, for ensuring that inter-corporate lending and investment of funds drawn from the nationalised banks were checked even more effectively than at present.

DRILLING IN DIGBOI

After a lapse of ten years, Assam Oil Company resumed drilling recently in the 80 year old Digboi oilfield—one of the oldest producing oilfields in the world. Work on the drilling of the first well in Digboi started in 1889 and the well was completed to a depth of 662 feet by November 1890. At the time of suspending drilling operations in 1959 some 989 wells had been drilled. It has now been planned to drill a few shallow in-filler wells in the only remaining area of the oilfield hitherto not fully developed. These wells will be drilled into three shallow oil reservoirs in the east Kharjan area of the Digboi field, where about 25 wells have been producing crude oil for the last 17 years. The total production from the existing wells is declining and is currently about 100 tonne per day. The object of dirilling the new wells is to make good some of the decline by building up an initial crude oil production of additional 100 tonnes per day.

SMALL-SCALE RADIO MANUFACTURERS

The All-India Association of Small-Scale Radio Industry and Trade has urged the government to reserve the radio industry for the small sector. In a memorandum to the Prime Minister, the association stated that its demand was in consonance with your avowed policy of the government. The memorandum points out that the industry offers a vast scope for self-employment to technicians and engineers. But its very nature, it is ideally suited for the small and cottage sectors as it does not require much space. Besides, it does not involve any foreign exchange and provides employment to girls from the lower income groups.

AGRICULTURAL WEALTH TAX

Wealth-tax would be chargeable on agricultural land from April 1, 1970. To tackle the extra work-load, the Income-tax Department is being strengthened at various levels. Four new Commissioners of Income-Tax, one each in Delhi, Bhopal, Hyderabad and Ahmedabad are being appointed for the purpose. Consequent upon these appointments, there wil be changes in the jursidiction and work of some of the existing Income-Tax Commissioners.

PAINT RESEARCH ASSOCIATION

Till recently, there were 50 units in the organised sector of the paint industry with an installed capacity of 105,960 tonnes and a production of 79,500 tonnes. In April last year a new definition of "Small Scale Industry" was adopted (as having 7·5 lakhs of rupees in plant and machinery only) and as a result, 33 units were transferred to the states. There are about 300 small units in the different parts of the country. The paint industry in the country is able to meet very nearly the entire demand for paints in the country. The vast range of items produced in India include automotive finishes, industrial, decorative and marine paints. A measure of the quality of Indian paints is the decision of the Export Inspection Council not to have separate quality control inspection for paints in view of the built-in quality control system prevailing in the units in the industry. The following figures illustrate the progress made in this field in the last 5 years :—

Year	Value in lakhs of Rs
1965-66	Rs 66·62
1966-67	Rs 75·61
1967-68	Rs 291·90
1968-69	Rs 274·60
1969-70 (April-Dec.)	Rs 239·50

The one major difficulty confronting the industry in its export efforts in the high cost of raw materials. For this purpose producton has to be planned both of agricultural products like linseed and industrial products like titanium dioxide, synthetic resins, zinc oxide, etc. The industry is itself keen on import substitution, towards which constant efforts are also being made. Towards this end, the paint industry has sponsored the Indian Paint Research Association and the technical experts in the industry are initiating suitable steps for in nitiating research projects.

INCOME OF STATE HOUSING BOARDS

Statutory Housing Boards set up by the state governments for the framing and execution of housing and other development schemes are to be exempted from payment of tax with retrospective effect, according to a provision contained in the Finance Bill 1970. The Finance Bill proposes to make a specific provision in the Income Tax Act exempting the income of Housing Boards from tax altogether. The provision, as proposed, exempts from tax any income of an authority constituted in this country by or under any law enacted either for the purpose of dealing with and satisfying the need for housing accommodation or for the purpose of planning, development or improvement of cities, towns and villages, or for both. The Amendment to the Income Tax Act is being made effective from 1-4-1962, the date of commencement of the Income Tax Act 1961. It may be recalled that the Conference of Housing and Urban Development ministers held in Bangalore last year recommended that since the Statutory State Housing Boards serve an important public purpose and do not exist for private profit, their income should be exempted from the the income and wealth taxes. The conference was of the view that if the emption was not possible within the existing provisions of the relevant Acts, these shoud be suitably amended. Several states have set up Statutory Housing Boards for effective and speedy implementation of housing programmes. These boards are autonomous organizations and they play an important role in implementing the social housing programmes of the government for the common good.

AUTOMATION COMMITTEE MEET

The Committee on Automation, which met recently under the Chairmanship of Mr R. Venkataraman, Member, Planning Commission, reviewed today case studies which had been conducted in the units where computerisation or automation had been introduced. The committee was set up in 1969 to review the total effects of operation of automation in the enterprises in public and private sectos in which it had been already introduced. The committee decided that further studies should be undertaken in a few public and private sector units in order to obtain additional information on the impact of automation on the extent and pattern of employment, wages and earnings. The committee felt that comparative data could also be collected in relation to production costs, labour saving devices, and management in the context of automation.

DURGAPUR LOSSES

The Minister of State for Steel and Heavy Engineering Mr K. C. Pant, indicated recently that loss in production at the Durgapur steel plant due to labour trouble during April, 1969 to January 15, 1970 has been estimated at Rs 7·11 crores. He added that production loss in terms of saleable pig-iron was 2,350 tonnes and saleable steel 87,755 tonnes. In all 384,763 man-hours were lost due to labour indiscipline during the period. It was difficult to assess the extent of damage due to labour trouble in specific terms. Every effort, he added, was being made to ensure the smooth working of the plant by holding constant dialogue and discussions with representatives of the workers, and the co-operation of the state government was sought as and when necessary.

NAMES IN THE NEWS

Mr R. V. Raman, till recently Executive Director or the Indian Investment Centre has joined the Planning Commission as Adviser. Mr. K. J. George, Joint Secretary in the Ministry of Industrial Development will succeed Mr Raman as Executive Director of the IIC.

Mr H. P. Morr, Managing Director, Firestone Tyre & Rubber Company of India Private Ltd, has announced the appointment of Mr V. N. Karode as Comptroller of the Firestone Tyre & Rubber Company of India Private Ltd. Mr Karode joined Firestone on 1 may 1949 and served in various capacitis in the finance division of the company, assisting management and the board of directors on financial and administrative matters.

Company Affairs

HINDUSTAN LEVER

HINDUSTAN Lever Ltd, has recorded a substantial increase in turnover from Rs 92·59 crores in 1968 to Rs 108·79 crores in 1969. Exports have almost doubled from Rs 108 lakhs to Rs 201 lakhs with an appreciable increase in the export of non-traditional items. The company's profit after tax and charging capital expenditure on scientific research has gone up from Rs 216 lakhs to Rs 275 lakhs, the increase being attributed to a lower capital expenditure on scientific research and the absence of tax adjustment for previous years. The profit before charging capital expenditure and tax has, however, risen only marginally from Rs 598 lakhs to Rs 616 lakhs. The company has strengthened further its research and development activities during the year and the total capital expenditure on research so far amounts to Rs 147 lakhs. The work done at the research centre has led to savings in imports, development of new products and upgrading of indigenous raw materials, extraction of sal seed and export of the oil for use as confectionery fat were pioneering operations. The directors have proposed to recommend a final equity dividend of 80 paise per share, subject to tax thus maintaining the total dividend of Rs 1·40 per share. The final dividend will be paid on the share capital as increased by the recent bonus issue. The profit in the early months of the current year, according to the directors, is, however, lower than in the same period of last year. This is attributed to the big rise in raw material costs and the absence of a similar rise in selling prices.

DUNLOP INDIA

The directors of Dunlop India Ltd, state in their report that the company has received an industrial licence for an additional 250,000 tyres and tubes per annum. The expansion project is being implemented. During 1969, the company spent Rs 2·44 crores mainly towards implementing an industrial licence to increase its automotive tyre capacity by 135,600 tyres and 124,800 tubes. In order to finance the company's foreign exchange requirements for its expansion plans over the next few years, a sterling loan of up to £ 2 million was negotiated with the Dunlop Co Ltd, UK. This loan will, however, be utilised to a limited extent only as the union government is now providing the necessary foreign exchange out of the credits and loans obtained from the British, West German and French governments. In 1969, the company introduced a grooved rubber pad exclusively for the Indian Railways, which will be used with a new design of concrete sleeper to facilitate faster running of trains. The pad acts as an insulation and vibration damper between the rail and the concrete sleeper. To meet the requirements of defence and certain specialised industrial applications, the company has started manufacturing metalastik rubber to metal bonded components.

UNION CARBIDE

The work on the electrolytic manganese dioxide plant of Union Carbide India Ltd, is progressing well. The construction in respect of a midget electorate plant at Hyderabad and a zinc rolling mill at Madras is expected to commence this year. According to the report for 1969, the company has also plans for the commercial harvesting of shrimp and expects to begin trawling operations towards the end of 1970. The new pesticides formulation plant at Bhopal went into production on schedule during the year. Expansion and modernisation of various manufacturing facilities undertaken during the year involved a total construction expenditure of Rs 2·38 crores compared with Rs 1·31 crores in the previous year. There was a higher total turnover for the year amounting to Rs 44·04 crores against Rs 33·95 crores for the previous year reflected higher sales of all product groups. With the depletion of the large inventories of competitive imported material, the plastics sales made a substantial recovery from the depressed 1968 levels. Sales of consumer products continued to improve as the demand for batteries and flashlights remained strong throughout the year. The demand for cinema arc carbons, photo-engravers' plates and chemicals showed an increase and continues to be strong. Besides, there was a marked improvement in the offtake of pesticides. The export sales rose by 14·3 per cent to Rs 1·26 crores.

MAHINDRA & MAHINDRA

Sales of the Mahindra and Mahindra Ltd, for the year ended October 31, 1969 went up by 20 per cent to Rs 28·45 crores. The gross profit went up by 50 per cent, from Rs 70·77 lakhs to Rs 107·67 lakhs. The directors propose to raise the equity dividend from 10 per cent to 11 per cent. The year has shown an all-round improvement in the turnover of various divisions of the company, all of which, with the exception of the newly formed agro-aviation division, have contributed to the increased profits. The production of jeeps during the year rose from 8,200 to 9,200 while sales went up from 8,200 to 9,300 jeeps. Mr Mahindra expects further progress this year as the turnover in the first four months has already gone up by 12 per cent. With the end of the recession, he is planning to take up the sales to the 1965-66 figure of 10,600 units. The plant has got a licensed capacity of 12,000 vehicles. The company has substantial orders from the defence and family planning departments as well as from Yugoslavia and some more are under negotiation. Exports during 1968-69 were of the order of 300 jeeps.

TATA COMPANIES

The Tata companies have pledged to be mindful of their "social and moral responsibilities" to the consumers, employees, shareholders, society and the local community. The pledge has been taken by inserting a new clause in the Articles of Association of the major Tata Companies, including the TISCO, the TELCO, the Tata Chemicals and the Tata Oil. The step is in response to the appeal issued by the Movement for Social Responsibilities of Industry and Business led by Mr Jaya Prakash Narayan. Swatantra Party chief, Mr M. R. Masani, MP is also associated with the campaign. Entitled "social responsibilities of the company" the new clause reads: "The company shall have among its objectives the promotion and growth of the national economy through increased productivity, effective utilisation of material and manpower resources and continued application of modern, scientific and managerial techniques in keeping with the national aspirations, and the company shall be mindful of its social and moral responsibilities to the consumers, employees, shareholders, society and the local community". The step, it is explained, has been taken to emphasise the Tata companies' continued dedication to the ideal of the social responsibilities of the management though they have always kept the social responsibilities in view.

AMERICAN EXPRESS

An increase of 20 per cent in the quarterly common stock dividend of American Express Company, the third increase in the last two years, was voted recently by the company's board of directors. A quarterly dividend of 30 cents per common share, payable on April 1 raises the annual rate to $ 1·20 from $ 1·00, up to 50 per cent over the 80 cent rate paid prior to April of last year when the rate was increased to that amount from the equivalent of 47 cents per share. American Express Company has now paid dividends on its common shares for 101 consecutive years. The board of directors also authorized payment of the $ ·230 preferred, and the 37½-cent dividend on the $1·50 preferred, both payable on April 1.

EASTERN INVESTMENTS

The directors of Eastern Investment Ltd, have a proposal to sub-divide the issued ordinary shares of the company from Rs 100 a share to Rs 10 a share. They have also decided, subject to the consent of the Controller of Capital Issues, to capitalise Rs 30·75 lakhs out of general reserve of the company to be issued as capital bonus, following upon sub-division of the company's ordinary shares as aforesaid, by the issue of 307,560 ordinary shares of Rs 10 each as fully-paid bonus ranking *pari passu* with the existing ordinary shares of the company save and except that the bonus shares shall not participate in any dividend declared in respect of the year ending December 31, 1969 or in any earlier dividend. The said bonus shares will be issued in the ratio of two-for-five on a date to be decided later by the directors.

NATIONAL PIPES AND TUBES

National Pipes and Tubes Ltd, has shown that during the year ended September 30, 1969, the company maintained the preference dividend at the usual rate, though it has halved the ordinary dividend to 2·5 per cent for the year against 5 per cent. The directors have stated that the main reason for the adverse working results has been the non-availability of raw materials at a competitive price. Despite the rise in sales, there has been a sharp decline in the production of finished materials and the materials-in-progress. They, however, hope for an increased production in the current year following improved conditions, provided there is adequate supply of raw materials and co-operation from the labour. The non-ferrous semis manufacturing industry being excluded from the priority list, the supply of vital raw materials such as copper, zinc and lead, has to be obtained through the Mineral Trading Corporation whose prices are high and supplies are irregular. Efforts are being made to bring the industry under the purview of the priority list. The company has incurred a loss of Rs 1·44 lakhs against a profit of Rs 77,490 after providing Rs 13,193 for depreciation, Rs 200 for development rebate reserve and Rs 37,190 for arrears of taxation. The entire loss has been set off against general reserve, the proposed dividend absorbing Rs 2·22 lakhs is to be paid out of dividend equalisation reserve.

BAJAJ TEMPO

Bajaj Tempo Ltd, has reported during the year ended September 30, 1969, that it earned a gross profit of Rs 38·67 lakhs against Rs 34·61 lakhs following a rise in sales to Rs 3·26 crores from Rs 3·13 crores. The directors have proposed to maintain equity dividend at 5 per cent for the year. The directors have provided Rs 28·55 lakhs for depreciation and Rs 3·56 lakhs for development rebate reserve, leaving a net profit of Rs 6·56 lakhs against a loss of Rs 9·22 lakhs. After bringing in a loss of Rs 7·14 lakhs and making other adjustments, a total deficit of Rs 17·14 lakhs is carried forward.

The proposed dividend will be paid out of the dividend reserve.

RALLIS INDIA

Rallis India entered the capital market on March 20, 1970 with an issue of 10,000 7½ per cent debentures (1982-85) of Rs 1,000 each. The issue was to close on March 31 or earlier at the discretion of the directors but not before March 24. The company proposes to install additional plant and equipment with a view to increasing substantially the existing production capacity of table and pedestal fans. The company is considering setting up a fertiliser granulation plant at Megarwara near Kanpur with a manufacturing capacity of 30,000 tonnes per annum. The granulation plant will be set up adjacent to the superphosphate factory of the company's 100 per cent subsidiary, Ralli Chemicals Limited, where land is available. The Company has been allotted 40,000 equity shares of Malabar Chemicals & Fertilisers Limited (Malabar) against payment of Rs 4 lakhs as application money. Malabar is a company incorporated with the active assistance of the Mysore government and has obtained an industrial licence to set up a fertiliser plant at Mangalore with a manufacturing capacity of 340,000 tonnes of urea per annum. The company will obtain from Malabar the right to distribute half the products manufactured by Malabar. After Malabar goes into production it is expected that this distribution tie-up will strengthen the position of the company in the fertiliser field.

STATE BANK OF INDIA

The State Bank of India has earned a net profit of Rs 5·50 crores for 1969, against Rs 5·06 crores in the preceding year. The dividend has been maintained at Rs 23 per share. The aggregate deposits of the bank have gone up by 14·8 per cent to Rs 1,030·4 crores. The increase in demand deposits is 12·7 per cent and that of time deposits is 16·9 per cent. The bank's outstanding advances rose over the year by 8·5 per cent to Rs 789·9 crores as compared to a rise of 25·3 per cent in the preceding year. The average credit deposit ratio for the year was 87·2 per cent as compared with 85·6 per cent in 1968. Investments in government securities went up by Rs 24·7 crores or 8·8 per cent to Rs 306·4 crores. The ratio of investments in government securities to deposits stood at 29·7 per cent in December 1969 against 31·4 per cent a year earlier. The bank's advances to agriculture, both direct and indirect, in terms of limits increased from Rs 62·7 crores at the end of 1968 to Rs 184·1 crores at the end of 1969, a rise of 193·6 per cent. Outstandings increased from Rs 19·3 crores to Rs 91·9 crores, that is by 375·2 per cent. The bank introduced during the year, the liberalised scheme of agricultural finance for assistance to small farmers. The total credit granted by the bank directly and indirectly to small-scale industries increased by Rs 69·0 crores to Rs 191·1 crores in terms of limits and by Rs 37·6 crores to Rs 103·4 crores in terms of outstandings small-scale industrial units on its books as against 328 at the end of 1968. At the and of the year the bank had 379. During the year, further liberalisations were made in the entrepreneurial scheme. The Bank put into operation various schemes for financing small business. The total volume of export credit granted by the bank rose by 43·5 per cent to Rs 68·9 crores.

ELECTROSTEEL CASTINGS

Electrosteel Castings Ltd, has recorded good results during the year ended September 30, 1969. There was an increase in the production of grinding media from 6,400 tonnes to 9,188 tonnes. The company has reached its licensed capacity of the plant of 15,000 tonnes per annum. The marketability of grinding media is gradually picking up. The company expects to have sufficient orders to run the plant to its full capacity in the near future. The accounts for the year after providing for depreciation and taxation shows a net profit of Rs 99 lakhs as against a loss of Rs 19·07 lakhs incurred in the preceding year. Depreciation is around Rs 10·81 lakhs, while a sum of Rs 70,000 is provided for taxation. The available balance is adjusted against the previous year's loss leaving still a deficit of Rs 1·05 lakhs to be carried forward to next year. The directors have once again not proposed any dividend, but state that they would be in a position to recommend a reasonable dividend for the current year. The encouraging results of the working for the first four months of the current year have promoted them to take an optimistic view. The company is now concentrating on the production of heat resistance alloy steel castings and other special castings in which it has acquired more than ten years manufacturing experience and has almost specialised in this line. Although the demand for spun form pipes is still much below the installed capacity in the country, the directors hope that the demand for pipes should pick up.

NEW SHORROCK

The directors of the New Shorrock Spinning and Manufacturing Company Ltd, have proposed to maintain the dividend for the year 1969 at Rs 20 per share, less tax. The company's net sales are higher at Rs 16·05 crores against Rs 14·28 crores last year. The company has earned a gross profit of Rs 174·22 lakhs against Rs 163·67 lakhs last year. After providing Rs 91·01 lakhs for depreciation, Rs 19·76 lakhs for development rebate reserve and Rs 18·25 lakhs for taxation, the net profit is Rs 45·20 lakhs. From this, a sum of Rs 10 lakhs is taken to redemption reserve and Rs 35·20 lakhs to general reserve. The proposed dividend will claim Rs 40 lakhs.

STANDARD MILLS

The directors of the Standard Mills Co Ltd, have proposed a dividend of Rs 20 a share, for the year ended December 31, 1969, same as last year. In addition they have proposed a jubilee bonus dividend of Rs 5 per share. The company's net sales have increased to Rs 22·56 crores from Rs 18·09 crores The gross profit has risen sharply from Rs 1·70 crores to Rs 3·28 crores After providing Rs 1·41 crores for depreciation and Rs 21·04 lakhs for development rebate reserve, the net profit is Rs 165·80 lakhs against Rs 11·85 lakhs. The entire net profit is transferred to general reserve. The proposed dividend, including the dividend on preference shares, will claim in all Rs 44·58 lakhs.

AMAR DYE-CHEM

The directors of Amar Dye-Chem Ltd, have proposed to issue bonus shares in the ratio of one new share for every 10 shares held. They have also proposed a final equity dividend of Rs four per share of Rs 100 each for 1969. Together with the interim dividend of of Rs 6 already paid, the total dividend for the year is Rs 10, the same as for 1968. The company has reported improvement in its working during 1999. Sales increased to Rs 6·71 crores from Rs 5·66 crores and the gross profit to Rs 133·42 lakhs from Rs 83·49 lakhs. After providing Rs 50·75 lakhs for depreciation Rs 4·90 lakhs for development rebate reserve, Rs 5·74 lakhs for managing agents' remuneration and Rs 39·50 lakhs for taxation, the net profit works out higher at Rs 32·52 lakhs. The directors have transferred Rs 25·45 lakhs to general reserve. The dividend on preference shares will absorb Rs 1·71 lakhs and the equity dividend Rs 13·19 lakhs. The expansion work on the beta naphthol project to raise the capacity from 1,000 tonnes to 2,000 tonnes is in progress. The project is expected to be completed by the end of this year. One unit of dianisidine and orthotolidine is likely to be commissioned by next month. The preliminary work of the vat dyes project is going on and the pilot plant trials are being taken. The range of reactive dyes has been expanded and about a dozen products have been added. Further the expansion work of reactive dyes is in progress

BHARAT FERTILISER

The directors of Bharat Fertiliser Industries Ltd, propose to maintain the company's equity dividend for the year ended October 31, 1969 at Rs 12 per share. The company has reported a gross profit of Rs 13·93 lakhs for the year against Rs 16·69 lakhs for the previous year, the total sales amounting to Rs 1·65 crores against Rs 1·64 crores. The directors have attributed the setback to the reduction in the offtake of fertilisers because of higher prices resulting from an increase in the excise duty on the one hand and a glut of fertilisers following excessive imports on the other. The liberalisation of the rules for the issue of licences of fertiliser dealers and the easy availability of straight fertilisers materially affected offtake of granulated mixed N.P.K. fertilisers. Competition among manufacturers of granulated compound fertilisers also made an adverse impact on the industry. The company had to tap new markets because of the increased competition, and some sales were made in West Bengal, Punjab and Haryana. After writing back the excess provision made in earlier years amounting to Rs 3·75 lakhs, the directors have provided Rs 3·94 lakhs for depreciation, Rs 7·40 lakhs for taxation, and Rs 23·312 for development rebate reserve, leaving a disposable surplus of Rs 6·11 lakhs. This sum has been disposed of by transferring Rs 2·81 lakhs to general reserve and providing Rs 3·28 lakhs for the dividend. The balance of Rs 2,224 has been carried forward against a sum of Rs 548 brought in.

INDIAN RAYON CORPORATION

The working of the Indian Rayon Corporation Ltd, will not be as good as in the year ended June 30, 1969. According to a spokesman of the company, the gross profit may be lower by about Rs 15 lakhs to Rs 20 lakhs than that for 1968-69. After providing for depreciation, the company might incur a net loss of about Rs 13 lakhs to Rs 14 lakhs in the current year. While the cost of production has gone up, the price realisation has been low. The company has to give 55 per cent of its production to weavers and exporters at concessional rates which are lower by about Rs 4 per kg. than the market price. Even the balance of 45 per cent production has realised lower than market prices. The present production is about six tons per day. The company has plants to manufacture finer denier yarn, for which some new machinery is to be installed. Its licensed capacity is ten tons, but owing to non-availability of import licences for balancing equipment, it is not able to achieve it. The company has represened to the government to grant some relief to small units by increasing the concession in excise duty.

TRAVANCORE RAYONS

Travancore Rayons Ltd, has maintained the equity dividend at 15 per cent for the year ended December 31, 1969. The company has reported a profit of Rs 73 lakhs for the year, after providing Rs 33 lakhs for depreciation. It has provided Rs 54·25 lakhs for taxation and Rs 23·76 lakhs for general reserve. During the year, there was delay in the arrival of imported pulp and chemicals and there was also shortage of cotton linters. The company also could not commission its fourth cellulose film plant for want of labour co-operation although it was ready by the end of the year. Yet the sales increased to Rs 7·61 crores from Rs 6·19 crores in the previous year. The Tariff Commission has not yet given its decision on rayon yarn prices. Meanwhile, the interim agreement reached between the spinners and weavers has lowered the selling price. This affected the company's performance.

CHAIRMAN'S STATEMENT

Mr. R.F.S. Talyarkhan

VOLTAS LIMITED

OPTIMISM AFTER A YEAR OF STRESS

The following is the Statement by Mr. R. F. S. Talyarkhan, Chairman and Chief Executive, Voltas Limited, circulated to the Members of the Company with the Annual Report for the year 1968-69:

The financial year 1968-69 will remain on record as the crisis year for your Company. For the first time in its 15 years' history, the disposable profits were insufficient to pay a dividend to the shareholders. This sad state of affairs was not brought about by any abnormal business conditions, nor by Government policies, but was due almost entirely to the deliberate and harmful agitation launched by the Federation of Unions which affected the interests of the Company and its thousands of shareholders. It was expected that the total turnover of the Company would reach a figure of over Rs. 80 crores for the year 1968-69 but this was not possible because of the prolonged and deliberate disruption of work.

The direct loss of business due to the labour agitation and disruption of work can be estimated at about Rs. 12 crores, but it is difficult to assess the indirect or consequential losses. Members were kept informed during the period of the labour trouble, through the Press and by direct correspondence, of the details of this unfortunate episode. I do not propose, therefore, to go over the ground again but in the context of the overall harm done to the Company, it would not be out of place for me to mention the deliberate attempt made by a section of the employees to denigrate the Company's image, and even of the products handled by it, whether of its own manufacture or otherwise. For such acts the Federation and its constituent Unions must accept full responsibility.

The agitation assumed a particularly militant form in Bombay and, to a lesser extent in Bangalore. What was the issue at stake? A very simple one, namely the Management's declared policy to extend the appointment of dealers and stockists in certain areas for selected lines of business, so as to augment the Company's distribution organisation, obtain a better market coverage and achieve improved profitability. This was objected to on the ground that there would be redundancy and retrenchment of staff. The Management gave an undertaking that there would be no retrenchment as a result of a wider distribution of the Company's products. After five months of futile struggle the Federation accepted the Company's assurances in September 1969. They were no different from those given voluntarily by the Management, both verbally and in writing, as early as April 1969. Apart from the serious loss to the Company's profits, the actions of the Federation caused nothing but hardship to thousands of employees.

It may be asked then why is union leadership so anxious to confront Management at every stage and on any pretext whatsoever? The answer would appear to be the antiquated notion that unless a union engages in constant confrontation with the Management, it will not justify its utility to its members. Much was said during and after the five critical months about the need to foster good industrial relations and to keep open channels of communication. Very few people could have known of the extent to which the Management of your Company had gone in its efforts to attain both objectives. It is perhaps the lot of almost all progressive managements, that it is they who always suffer most in industrial disputes. Just as freedom is often confused with licence, so is responsive management regarded as weak management.

No effort was spared by the Federation to pressurise and embarrass the Management. Never before has the Company's managerial cadre had to face such difficulties and such frequent and deliberate provocations, but I am glad to say that no one amongst the management staff faltered in their duty throughout this difficult period. They worked round the clock and even attended to the most menial of jobs, in an attempt to minimise the harm being done to the Company and its business. They deserve your highest praise for their tremendous zeal, loyalty and devotion to work.

The Company ended the year with a sales turnover of just over Rs. 68 crores which was only slightly better than the figure for the previous year. Because of the Company's product-mix, these sales yielded a lower gross margin, and since costs of operations remained at a high level, the disposable profits were no more than about Rs. 3.5 lakhs as against Rs. 77 lakhs in the previous year.

It is perhaps necessary to explain the effects of the product-mix on the financial results of the Company. Broadly speaking, the Company's operations fall into three main groups. The first is heavy engineering equipment, both mechanical and electrical; the second is medium and light engineering goods; and the third would cover durables and consumer products. The profit margins between group and group, and between products in the same group, vary considerably — some might relate to high volume-low margin business, while others may be of comparatively low volume with reasonable profit margins. The days of high margin business in any sphere of activity are a thing of the past. The pattern of the last two or three years has been an increase in business yielding low margins, which explains to a great extent the declining rate of profitability.

I would now like to give members a brief summary of certain significant features relating to the various activities of the Company.

In *Air conditioning and Refrigeration*, the Company broke new ground in the field of dairy refrigeration equipment, which will help it play a very important role in the extensive programme planned for the development of dairies throughout the country. In another sphere, plans are under way to cater for every form of mobile air condition-

ing and refrigeration. The availability of highly sophisticated equipment from Tata-Merlin & Gerin and of products from National Electrical Industries provide a well-integrated programme for the *Electrical* division in power distribution and generation. *Earth Moving and Construction* equipment as also *Mining and Conveying* did not show signs of such improvement except in the case of Tata P & H excavators, but if all goes well, the Fourth Plan should open up new and fresh avenues of business for heavy engineering products. Two divisions which gave promise of better business were *Materials Handling* and *Machine Tools*. Both are growth areas in the context of the industrial development of the country, and your Company is well entrenched here; in fact, it is perhaps the foremost in the design of systems and the supply of products in the sphere of materials handling, while in machine tools it is today the largest distributor of quality equipment, whether manufactured in the public sector or in large or small units of the private sector. In *Agro-Industrial* products, your Company was well on the way to consolidating its position as the leading marketing organisation for all kinds of agricultural inputs. It would be superfluous to stress here the importance of this sector and of the unlimited opportunities it offers your Company. Similarly, in *Pharmaceutical and Consumer* products, the trends indicate the possibility of substantial growth of business and the division concerned is being geared to handle a larger volume, wider range and deeper market penetration. *Chemicals* is a mixed and uncertain bag, partly because of the dependence on imports; however, more indigenous representations are being acquired which will help this division materially. *Project Engineering* is presently engaged in aerial ropeways and precipitators, but various other fields are being explored.

Increase in prices and shortages of critical raw materials greatly hampered *Manufacturing* activities at Thana. This unit is going through a phase of diversification of its air conditioning and refrigeration, mining and materials handling programmes, side by side with the streamlining of operations and the creation of better research and development facilities. This unit is the base on which the future well being of the Company will be founded; an appreciable part of the manufacturing programme generates a large volume of business by the incorporation of Thana products in turn-key installations and systems.

The sales turnover during the first five months, i.e. upto the end of January 1970 is somewhat better than the same period last year. So also are the forward orders booked so far. The Management hope that they will reach the target of sales which was fixed for the year under report. Unless something untoward happens or the industrial relations are again disrupted, the Company should achieve this target.

Your Company has been regarded, and quite rightly too, as a growth company and its achievement during the Sixties bears this out. At the start of that decade, the Company had a turnover of approximately Rs. 20 crores and ended with a figure of almost Rs. 70 crores, which in reality would have been over Rs. 80 crores but for the unfortunate events of 1968/69 mentioned by me earlier. There is every reason to believe that given the freedom to expand its business in an era of political stability and industrial peace, the Company can achieve a similar rate of growth by the end of the Seventies. This is not wishful thinking but something which, with careful planning and organisation, is well within its grasp.

With the passing of the Monopolies and Restrictive Trade Practices Bill into an Act by Parliament and, furthermore, with the acceptance in substantial part by the Government of the Dutt Commission's Report, I must, however, caution the members that though there may be no outright embargo on our growth, our future development and diversification will depend largely on Government policies.

I would plead that Government adopt, preferably through the instrumentality of an independent body, a "balance-sheet" approach to our performance, evaluating both our limitations and achievements in the light of the goals of national priority. It has always been argued that distribution, particularly in a modern economy, is nothing less than a factor of production and any attempts to categorise and penalise your Company as belonging to the "non-priority" sector would, I venture to say, be entirely unjust.

On the contrary, it is a fact that as a major engineering concern, your Company is helping the Government to achieve the goals it has set itself of creating a wide net-work of small-scale entrepreneurs, both in manufacture and in retailing. Thus, on the one hand, these entrepreneurs would reap the fruits of a wide national market, and so overcome one of the severest limitations of both the small-scale and the co-operative sectors of industry at a reasonable cost; on the other hand, the Company would create a demand for the products of small industries. For example, almost half of the annual purchases made by the Company for its Thana Works and for its various Branches is obtained from small or medium-scale industries. These purchases presently total over Rs. 3 crores and provide employment for thousands of men scattered all over the country. Expansion of your Company's activities will surely create greater employment potential not only for artisans but also for engineers. Restrictions on the growth of your Company would mean denial of these opportunities of employment. Your Management has in mind the setting up of more and more ancillary industries to be run by small entrepreneurs including its own ex-employees, with the support of the Company. No conception is thus so unrelated to reality as that of a basic "class-war" between the large-scale and small-scale sector.

Apart from any restraint placed on your Company by government, there is another feature which might affect progress in the new decade. I refer to the resistance of the Federation and Unions to the introduction of new management aids and techniques. I would like to repeat what I have said on many earlier occasions that your Company can only hope to continue as one of the finest engineering and marketing houses, if it introduces without further delay new and highly sophisticated tools of management. It cannot continue to give the excellent service for which it is known throughout India, whether it be to Government projects and corporations or to the millions of private individuals who use one or other of the products handled by the Company, if it is to rely on its old traditional methods of gathering information on which to base decisions. A vast and growing dealer and stockist organisation coupled with new and more front-line offices of the Company is one of the ways to ensure better coverage, better service and greater economies of operation. To control this vast network, it is vital to get faster access to reliable and up to date data, so that the system responds more quickly to changes in the market-place. This cannot be achieved without the early introduction of much faster methods of data acquisition, processing and retrieval.

In conclusion I am happy to say that the tempo of work throughout the Company's establishments during the last few months has shown a marked improvement, which, I trust, will continue unabated, thus enabling the Company to achieve considerably better results.

Note: The above Statement is not a report of the proceedings of the Annual General Meeting held on the 26th March 1970.

RECORDS AND STATISTICS

TECHNICAL GAPS

THE MINISTRY of Industrial Development, Internal Trade and Company Affairs has recently studied the areas of major technological gaps in engineering industries which currently exist or which are likely to develop during the fourth five-year Plan period. Listed below are all such industries :

(i) Know-how for manufacture of ultra high pressure vessels of multi-layer/forged types (BHPV is negotiating with certain parties).

(ii) Know-how for design of electrolytic cells for caustic soda production.

(iii) Know-how for manufacture of high quality glass lined vessels.

(iv) Evolution of thermal and mechanical design of specialised heat exchangers (Engineers (I) Ltd., is considering a collaboration with LUmas, USA for certain types).

(v) Design and drawing for rubber processing machinery.

(vi) Design and drawing for ceramic machinery.

(vii) Design and drawing for leather and footwear machinery.

(viii) Design and drawing for radial type continuous casting plant, (HEC is negotiating with one party).

(ix) Design and drawing for automatic bottling plants of high capacity.

(x) Design and drawing for specialised cranes.

(xi) Design and drawing for specialized waste heat boilers.

(xii) Design and drawing for pelletisation plant. (HEC is negotiating with certain parties).

(xiii) Design for Machine Tools.

On the design and development side of machine tools, an Institute viz., Central Machine Tool Institute, has been established by the Government at Bangalore. This institute has taken up work in connection with development of numerical control system and programme control equipment suited for the machine tools manufactured in India, Assistance to the industry through the Central Machine Tool Institute will be welcome

(xiv) Know-how for titanium metal.

An Indian Company has been granted a letter of intent for establishment of a project for manufacture of Rutile, Titanium Dioxide, Titanium metal sponge, high titanium slag etc. in Kerala. The investment proposed is about Rs 45 crores. The scheme is mainly export-oriented.

(xv) *Electrical Industries* :

1. Thyristors & Thyristorised Control Equipments required for papermill, rolling mill, motor control etc.
2. Flame-proof crane controlgears and other controlgears, specially for heavier cranes and of sophisticated types.

A medium scale new project may also be feasible in this line of manufacture.

3. Servo-motors.
4. High frequencycables.
5. Aluminium wound distribution transformers using aluminium foils etc.

A medium scale new project may be feasible in order to accelerate the pace of substitution of copper windings by aluminium windings. But there is no gap in the capacity of distribution transformers for further licensing.

6. Substitution of aluminium conductors in Telephone Cables

M/s. Hindustan Cables Ltd., West Bengal, are already working on this.

7. Cold Rolled Grain Oriented Steel (CRGO) of Transformer grade

The Hindustan Steel Project, Rourkela, have been planning to manufacture this item.

8. Sub-marine batteries

(xvi) *Air-Conditioning and Refrigeration Industries* :

1. Centrifugal packaged chiller for air conditioning of multistorey building etc.
2. Accelerated Freeze Drying Plant.
3. Air conditioning Refrigeration equipments for transport (Trains, Buses, Trucks, Cars).
4. Plate Freezers (Plate assembly only)
5. Sealed and Semi-sealed Air conditioning Refrigeration compressors above 7·5 tonnes.
6. Grain Silos.
7. Air Driers (for Industrial uses)
8. Dryfit Photo Flash batteries.

Report on Land Acquisition

The Report of the Land Acquisition Review Committee was presented by its Chairman, Mr A. N. Mulla today, to Mr Jagjivan Ram, union minister for Food and Agriculture. In compliance with the assurance given by the government during the passage of the Land Acquisition (Amendment and Validation) Bill, 1967, a high power Committee, consisting of Members of Parliament and representatives of state governments, was set up by a Resolution dated the 27th July, 1967, to review the entire working of the Land Acquisition Act, 1894, and suggest improvements in its administration. Mr A. N. Mulla, Member of Parliament and former Judge of the Allahabad High Court was appointed Chairman of the Committee. Mr D.B. Kulkarni, Joint Secretary and Legal Adviser to the Government of India worked as the Member Secretary of the Committee.

The terms of reference of this Committee were :—

To examine the scheme of acquisition of land for public purpose and companies in the public and private sectors under the Land Acquisition Act, 1894, with particular reference to :—

(i) Principles which should govern acquisition of land for a public purpose;

(ii) Principles for determining compensation ;

(iii) reasons for administrative delays and remedial measures;

(iv) Extent of government responsibility for rehabilitation of evicted families and recommendations about discharge of this responsibility; and

(v) Feasibility of enacting a uniform Central Law on 'land acquisition' which may be applicable to the whole country although 'land acquisition' is in the Concurrent List.

The main recommendations and conclusions of the Committee on the above terms of reference are as follows :—

Definition of 'public purpose' :

The Committee has come to the conclusion that it is not possible to lay down any hard and fast definition of 'public purpose' which is a condition precedent to the exercise of the power of compulsory acquisition under our Constitution. The Committee has therefore proposed an inclusive definition of the expression so as to make it much wider than the existing definition. According to the Committee, unless compelling circumstances (to be stated in writing) exist which render it necessary so to do, no proceedings for acquisition should be taken in respect of any land or building which has been acquired by the appropriate government for a public purpose and which has been or is being put to use for the said purpose. Though it is not desirable to ban proceedings for acquisition in respect of any and or building which is already being used by a person or body of persons for a housing scheme or industry and the public purpose for which it is being acquired is the same, some way should be found out by government to protect the interests of the genuine land owners or co-operative societies who are using or intending to use the land for a housing scheme or industry consistent with the proposed planned development.

Justiciability of 'public purpose' :

Keeping in view the fact that under our Constitution, existence of public purpose is a condition precedent to the exercise of power of compulsory acquisition, the gommittee has recommended that public purpose should be made justiciable by amending the provisions of Section 6 of the Land Acquisition Act suitably. Under the existing Act, a declaration of a public purpose by the government is final and non-justiciable. The Committee feels that a provision for justiciability of the public purpose would go a long way in removing the apprehension of the public as regards the possible abuse of power in the name of public purpose.

Reverter of land in case of non-use for the purpose for which it was acquired:

Government may, within reasonable time, use the superfluous land for any other public purpose though acquired for a different public purpose. However, if the land acquired, or any portion thereof, is not used for the purpose for which it was acquired or for any other declared public purpose, within reasonable time government must offer the land to the original owner/perpetual lessee/tenant of agricultural

land who has acquired occupancy right, he or their heirs, as the case may be, (unless, or they are not found after diligent enquiry) on repayment of the amount of reasonable compensation or a proportionate portion thereof. It should also be made open to the owner etc. or his heirs to claim back the said land on the above terms from government, and if the government fails to act in this matter, an action for reconveyance and possession of the superfluous land would lie in the Court. Provisions on the above lines would operate as a check against excessive acquisition of land by the state.

Acquisition of land for Companies ;

The Act authorises acquisition of land for public purpose as well as for companies. The Committee has recommended that it will not be wise to impose a total ban on acquisition of land for companies which are engaged or taking steps for engaging themselves in any industry or work which is for a public purpose. It has, however recommended that the special procedure laid down in Part VII of the Land Acquisition Act which imposes salutary restrictions should be complied with in all cases. The normal provision for acquisition of land contained in Part II of the Act should be invoked in cases of acquisition of land only for Government Companies/Corporations/ Bodies Corporate. Payment of contribution from the public funds should not be made obligatory for invoking the provisions of Part II of the Act in the case of such Government Companies/ Corporations etc. If the land is not utilised by any Company within the specified or extended time for the purpose for which it was acquired, the transfer of land, or a portion thereof to the Company should be declared null and void and the land reverted to the original owners'perpetual lessee.

Principles for determining Compensation:-

The Committee has recommended that as far as possible every one who is deprived of his property by compulsory acquisition should be enabled by the compensation awarded to him to place himself in substantially the same position in which he was before the acquisition. The community which benefits from the aquisition must also bear the burden of justly compensating the owner. The Committee has observed that it is fully aware of the imperative need for minimising the concentration of wealth in a few hands and the necessity of removing social disparities for achieving the objects of a Welfare State envisaged by the Constitution. But this does not mean that when the state acquire property for its needs, it should not give a fair deal to the holders whom it forcibly dispossesses. There are other measures which can always be adopted by the state for removal of social inequalities. The Committee has further observed that so long as the right to property is recognised as a Fundamental Right though in a more restricted form after the Constitution (Fourth Amendment) Act, 1955, it would not be justified in recommending a law providing for inadequate compensation. In fact, the need for protecting the individual as against the state is all the greater because of the power of the State to adopt various devices which would altogether nullify, in effect, the provisions about the payment of fair compensation to the owner deprived of his property as a result of compulsory acquisition. It is legally not possible to look at the question from the point of view of the state alone, and completely ignore the injury caused to the citizen. If the state wants to resolve this conflict of interests in its own favour, then it is necessary that the relevant Articles relating to Fundamental Rights in the Constitution should be suitably amended and not that the Constitution should be bypassed. Equitable compensation must be equitable both to the individual and to the community.

The Committee appreciated the need for protecting the state against the payment of compensation based on speculative rise in prices in the case of large-scale projects. It has recommended that compensation should be payable on all lands (including property) acquired only on the basis of market value including its potential value as has been the guiding principle up-till-now. Under the existing law the compensation is determined on the basis of market value as on the date of publication of notification under Section 4 (1) in all cases of acquisition. The Committee has drawn a distinction between the normal cases of acquisition like setting up a post-office, railway station, etc. and acquisition of land for big projects— a project for which it is proposed to acquire hundred acres or more of land. The Committee has recommended that in normal cases, compensation should be payable on the basis of market value as on the date of publication of the notification under Section 4 (1). However, in order to check the speculative rise in prices the Committee has recommended that a project notification may be issued as soon as the government intends to launch a project. While market value of land in the case of big projects may be determined as on the date of publication of project notification followed by S. 4 (1) notification within 2 years an allowance for the normal rise in land prices subject to a maximum of 25% should be made from the date of project notification up to the date of issue of notification under Section 4 (1). The amount of solatium which is at present 15% of the compensation should be raised to 30% The Committee has recommended the adopting of the principle of reinstatement value and exclusion of increase in value of the property due to illegal use.

Forum for determination of compensation :

At present the amount of compensation is determined by the Collector and his award is final unless the case is referred to the court at the desire of the party aggrieved by the said award. The Committee has observed that the Executive agency such as that of the Collector cannot be regarded as the appropriate forum for determination of the compensation as he is generally not in a position to understand and appreciate complicated legal questions which often arise in connection with the valuation of land. It has also been noticed that the approach of the Collector to the problem of compensation has generally been biased.

The Committee has accordingly recommended that determination of compensation should be left only to the Courts which alone are in a position to inspire confidence in the general public. According to the Committee, the compensation may be fixed by an agreement between the parties and a reference may be made if no agreement is reached.

With regard to the composition of the Court for determination of compensation, the Committee is of the view that it should consist of a single person who should be a functioning District Judge or a retired Judge of a High Court or a Senior sub-Judge of more than 10 years standing. In case where the acquisition of land is made for big projects or for town planning scheme affecting a large section of the population a special court consisting of a High Court Judge should be set up for the disposal of cases arising out of acquisition for big projects. An appeal will lie against the order of the court to the High Court as provided in the present Act. The Committee has recommended that the right to appeal should be excluded in certain cases involving petty amounts unless a point of law or question of title to the land was involved.

Acquisition in cases of Urgency/Emergency:

According to the Committee the urgency clause has been the most abused section in acquisition proceedings all over the country. Section 17 arms the government with drastic powers. It has become a rule for the acquiring authority to apply the urgency clause and to dispense the provisions of Section 5-A which enables the owner or the occupier of the land proposed to be acquired to raise objections before the acquiring authority.

Though there would be a justification for taking possession of the land without an enquiry under Section 5-A in an emergency such procedures should not be permitted in cases of emergencies not specified in the Act.

The Committee has recommended that the urgency clause under Section 17 in the Draft Bill of the Law Commission may apply only in cases of emergencies specified in the Draft Bill subject to the following modifications :

(*i*) That an opportunity should be provided to the dispossessed land owner to appeal to the government against the decisions of the Collector in the first instance when he takes possession of his land on all grounds available to him ;

(*ii*) That the interim compensation which was suggested by the Law Commission as 60% of the value estimated by the Collector should be raised to 90% and this should be given to the land owner;

(*iii*) That the land owner should be provided an opportunity to take his grievances to a court of law if he is dissatisfied by the order of the Collector upheld by the government.

Administrative delays and remedial measures:

The Land Acquisition Act, 1894 does not provide for any time limit except that a period of 30 days has been prescribed for hearing objections from the person interested after the issue of notification under Section 4 (1). The Land Acquisition (Amendment and Validation) Act, 1967 further provided that no declaration under Section 6 to the effect that the land is required for a public purpose in respect of any land can be made after the expiry of 3 years from the date of issue of notification under Section 4 (1). No time limit has been prescribed for other stages of acquisition under the existing law. The Committee has observed that there has been inordinate delay in finalising land acquisition cases with the result that the land owners are hit hard in many respects. The Committee has recommended that acquisition proceedings up to the date of reference to the court should be completed within a period of 12 months. This period may be extended by another 3 months in the cases of normal acquisitions and by another 6 months in the case of acquisition for big projects provided there are good reasons to be recorded in writing. In the case of acquisition for a big project, a period of 2 years prior to the issue of notification under Section 4 (1) would also be available to the state for completing the proceedings. The Committee has further recommended that in case the time limits prescribed are not adhered to, the acquisition proceedings would have to be started afresh.

Measures for Rehabilitation of evicted families:

The Land Acquisition Act contains provisions for compensating the *persons interested* in land for the loss of earnings and also for disturbances involving a change of residence or place of business in consequence of the acquisition of land. The Committee has observed that the increase in the amount of solatium from 15% to 30% would go a long way in meeting the cost of rehabilitation in the case of the land owners and other persons interested in the land. In case of persons who do not come in the definition of 'person interested'

viz., labourers, artisans and similar other classes of persons, the government should accept a social and moral responsibility for the rehabilitation of such persons who indirectly suffer damage as a result of acquisition. The Committee has observed that it may not be possible to provide in the body of the Statute for measures of rehabilitation of such uprooted families. The Committee has recommended various measures for resettlement of displaced persons and for their economic rehabilitation. It has endorsed the recommendations of the National Commission on Labour for giving preferential treatment to displaced persons in the matter of employment.

The Committee has recommended that the cost of rehabilitation should form a part of the cost of project which in many cases are developmental projects and are likely to give returns many times the cost incurred in setting them up.

The Committee has recommended that the state governments may levy betterment fee on the lands which have been benefited as a result of the implementation of the projects or development schemes initiated by the government. The fee may be levied on such of the lands as are not covered by the existing laws levying such fees. The part of the cost towards rehabilitation of displaced persons should be met from the funds collected as a result of leying of betterment fees.

Feasibility for enacting a Central Uniform Law on Land Acquisition :

The law of land acquisition should be made applicable to the whole of India including the States of Jammu and Kashmir and Nagaland after complying with the necessary constitutional formalities. The Committee has observed that a single and simple piece of legislation relating to acquisition of land would go a long way in avoiding confusion in the minds of the public with regard to the rights possessed by them in this regard and will also remove a temptation for the acquiring authority of preferring to adopt that procedure which is more favourable to their designs but far more injurious to the interests of the land-holder.

Parliament is competent to pass a law for compulsory acquisition of land even in cases where the acquisition is sought to be made for state purposes such as town planning/improvement, development of industries, public health and sanitation, slum clearance etc. which are matters covered by the State List. While the states may have their own laws relating to town planning, public health, etc. for regulating matters other than land acquisition, there is no reason why acquisition for such purposes should not be governed in regard to essential matters such as compensation and time limits by Parliamentary legislation on the subject.

Parliamentary legislation in so far as it relates to the principles of compensation and the time-limits for the completion of acquisition proceedings, in accordance with the recommendations of the Committee, will override the repugnant provisions in the existing law on the subject because under Article 254 (2) of the Constitution, Parliament can always override or repeal State Law to the contrary in the concurrent field. A law which might thereafter be passed by a state in derogation of the law passed by Parliament, will have to be reserved for the assent of the President and would not become law unless the same is given in accordance with Article 31 (3).

When the matter comes for the assent of the President, it would be open to the concerned Administrative Ministry of the Union to advise the President to refuse his assent to any law of the state purporting to override the law enacted by Parliament particularly when the state law adopts principles of compensation etc. which are materially different from those contained in the Law enacted by Parliament. The assent of the President will thus depend on the policy of the Union Executive. This policy should be governed by the necessity of ensuring uniformity of law of compulsory acquisition of land throughout the country, irrespective of the objects to be served by the acquisition.

Recommendations on other matters for improvement in the Land Acquisition Act :

A Land Acquisition Committee should therefore be set up under the Act for advising the government in respect of the Land Use Policy in the matter of large-scale acquisitions for any public purpose including the implementation of projects. The functions of the Committee would be to ensure that :—

(*i*) the land which is already in the possession of the acquiring body is put to optimum use before permitting the proposed acquisition ;

(*ii*) an excessive acquisition does not take place ;

(*iii*) the acquisition of good agricultural land does not take place where it can be avoided; and

(*iv*) the proposed acquisition is justified on the basis of high density norms.

The Committee should tender advice to the government before issue of the notification under Section 4 (1) of the Land Acquisition Act.

The composition of the Committee should be left to the appropriate government, but its members should include both experts on the subject and representatives of the people.

Need for self-imposed restrictions on the power of acquisition :

While formulating its recommendations, the Committee has suggested certain restrictions in the matter of acquisition of land by the state. In the first place, the Committee has suggested provisions which would check excessive acquisition of land by the state. Secondly, further safeguard have been recommended for preventing non-utilisation or under-utilisation of the land for the purpose for which the same is acquired by government for itself or for the companies. Thirdly, the Committee has recommended that the provisions of Part VII of the Land Acquisition Act which imposes salutary restrictions in the matter of acquisition of land for companies should be complied with in all cases of acquisition of land for a company other than a Government Company/Corporation/Body Corporate and not merely ordinarily "as envisaged by the existing rules."

Three Members of the Committee, Mr D.S. Desai, Mr Sheel Bhadra Yajee and Mr B. Shankaranand have submitted notes of dissent on certain points.

Mr D. S. Desai is of the opinion that :

(1) Public purpose should not be made justiciable.

(2) The award of compensation should continue to be made by the Collector.

(3) The time limit of 18 months for the publication of notification under Section 6 from the date of issue of notification under Section 4 should alone be fixed both in the cases of normal acquisition and in cases of acquisition of land for big projects. In case the time limit is not adhered to notification under Section 4 should be treated as cancelled.

(4) For invoking the urgency clause the incidents of emergency need not be specified.

(5) There should not be any advisory committee for acquisition of land in the case of big projects.

Mr Sheel Bhadra Yajee has opined that:—

(1) The market value should be determined on the basis of prevailing price one year before the date of notification under Section 4 or average of three years, whichever is higher.

(2) The market value should be determined on the basis of current use of land.

(3) In case of dealy in declaring the award beyond the prescribed period either a sum equal to the overall general rise in prices during the preceding years be added to the compensation determined on the basis of date of issue of Section 4 notification or a fixed percentage per annum be added for the delayed period provided delay is not caused by the land owners or civil courts.

(4) The developed land should be leased out and not given as free hold.

Mr B. Shankaranand has suggested the incorporation of a clause that the settlement of land for agriculture with the weaker sections of the people would be a 'public purpose'.

Printed and Published by R. P. Agarwala, on behalf of the Eastern Economist Ltd., United Commercial Bank Building, Parliament Street, New Delhi, at the New India Press, Connaught Circus, New Delhi
Editor : V. Balasubramanian
Registered at the G.P.O., London, as a newspaper